COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

ALBERT B. CHANDLER III
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SUITE 200
FRANKFORT, KY 40601-8204

December 30, 2003

Thomas M. Dorman, Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

RE: Responses to Commission staff and Company data requests in In the Matter of: An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism Tariff of Kentucky Utilities Company, PSC Case No. 2003-00334 and An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism of Louisville Gas and Electric Company, PSC Case No. 2003-00335

Dear Mr. Dorman,

Enclosed herewith are the original and seven copies responses of the Attorney General to data request posed by Commission staff by Order dated December 15, 2003 and to data requests posed by LG&E and KU. By this letter I certify that all parties have been served with a complete and true copy of the responses with the exception of diskettes. The responses to the data request of LG&E and KU require two diskettes that have been included only in the following: the original supplied to the Commission, the copy provided to John Wolfram and to Robert Rosenberg on behalf of LG&E and KU, Mike Kurtz, Mike Laros and David Barberie.

Sincerely,

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Assistant Attorney General
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cc: Mike Beer
Linda Portasik
Kendrick Riggs
John Wolfram
Mike Kurtz
Mike Laros
David Barberie

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

1. In reference to Dr. Weaver's statement at page 10, line 22 that factors other leverage affect risk, indicate the five most important other factors that affect risk.

Answer:

A discussion of risk, as it relates to the rate of return is provided in Appendix II, page 3 beginning at line 10 and continuing through page 4, line 12. As is indicated in Appendix II, page 3 on line 12, "Risk ... is caused by any phenomenon which may result in the actual future return being less than the return anticipated when the investment was made." Categories of risk are provided on lines 15 through 19, page 3, of Appendix II. Since it is caused by the occurrence of any item, some of which can be controlled or partially controlled, it is not possible to rank risk exposure. For example, the occurrence of an ice storm that effects a company's distribution is an important source of risk to a company located in an area where ice storms occur and that has dense vegetation but less important to a company located where ice storms almost never occur and where there is little vegetation.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

2. In reference to Dr. Weaver's discussion of KU's common equity ratio at pages 12-14:

a. Explain what Dr. Weaver means when he states "provided that the same amount of equity is repurchased" at page 12, line 13.

b. Explain what Dr. Weaver means when he states "to purchase equity from the company's owners" at page 14, line 8.

c. Explain the calculation on page 12, line 13 and indicate the source of the data.

Answer:

a. The reference used the capitalization from the Barrington-Wellesley Group, Inc. Report, page V-19, May 22, 2003 filing for the year 2002 to calculate that if equity were $106.7 million lower and leveraged items were $106.7 million higher, the referenced capital structure would contain 50% equity. The way to accomplish that would be to issue debt and use the proceeds to repurchase equity.

b. The company's owners possess the equity so in reference to item a, the equity would have to be purchased from its owners.

c. See the response to a above and the calculation provided in parentheses on line 13, page 12.

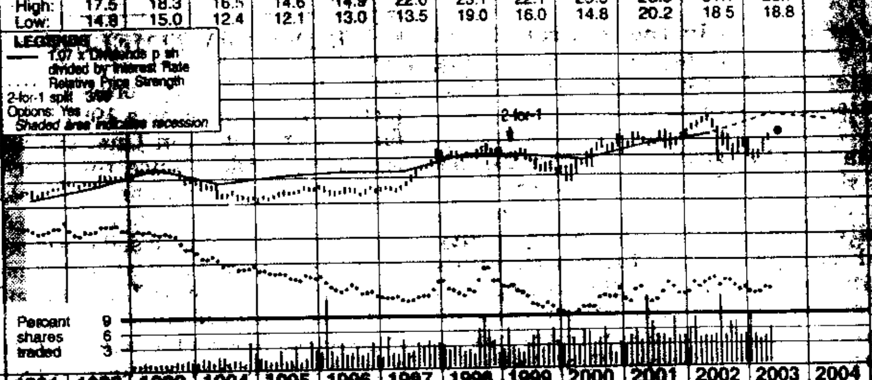
ALLETE NYSE-ALE

RECENT PRICE **26.04** | P/E RATIO **16.3** (Trailing: 17.2; Median: 14.0) | RELATIVE P/E RATIO **0.98** | DIV'D YLD **4.4%** | VALUE LINE **696**

TIMELINESS **4** Lowered 9/27/02
SAFETY **2** Raised 4/9/99
TECHNICAL **4** Lowered 7/4/03
BETA .70 (1.00 = Market)

High:	17.5	18.3	16.5	14.6	14.9	22.0	23.1	22.1	25.5	26.9	31.1	26.7
Low:	14.8	15.0	12.4	12.1	13.0	13.5	19.0	16.0	14.8	20.2	18.5	18.8

Target Price Range 2006 2007 2008



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+15%)	6%
Low	20	(-25%)	-1%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	4	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	90	92	83
to Sell	78	68	64
Hld's(000)	31813	32005	32277

% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	-11.7	-4.[illegible]
3 yr.	41.7	12.0
5 yr.	50.2	23.8

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
7.71	7.95	7.87	7.46	[illegible]	[illegible]	8.10	9.90	10.69	12.93	14.19	14.36	15.40	17.83	18.21	17.60	18.80	18.70	[illegible] A	24.00
1.87	1.87	1.83	[illegible]	[illegible]	[illegible]	1.85	1.54	1.73	2.01	2.18	2.23	2.44	2.73	2.80	2.35	2.55	2.65	[illegible]	3.25
1.17	1.18	[illegible]	[illegible]	[illegible]	[illegible]	1.10	.92	.89	1.14	1.24	1.35	1.40	1.67	1.74	1.46	1.60	1.65	[illegible]	2.00
.89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.02	[illegible]	[illegible]	1.07	[illegible]	1.10	1.13	1.16	[illegible]	[illegible]
.80	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.09	1.28	1.27	[illegible]	.79	1.12	1.30	2.28	[illegible]	2.40	1.55	1.15	Cap'l Spending per sh	[illegible]
8.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.81	8.99	9.26	9.32	9.69	10.85	10.96	12.06	13.63	14.40	15.00	15.45	Book Value per sh C	[illegible]
56.28	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	62.49	62.84	[illegible]	67.20	72.40	73.50	74.70	83.90	85.80	87.25	87.25	Common Shs Outst'g D	[illegible]
11.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	16.7	15.[illegible]	[illegible]	13.1	[illegible]	[illegible]	11.9	10.6	17.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	[illegible]
.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.10	1.06	[illegible]	.76	[illegible]	[illegible]	.77	.70	[illegible]			Relative P/E Ratio	[illegible]
6.3%	7.1%	7.1%	7.4%	6.7%	6.1%	5.7%	7.4%	7.6%	[illegible]	6.3%	4.9%	5.6%	6.6%	4.6%	4.3%			Avg Ann'l Div'd Yield	[illegible]

CAPITAL STRUCTURE as of 3/31/03
Total Debt $1044.1 mill. Due in 5 Yrs $576.5 mill.
LT Debt $745.2 mill. LT Interest $51.4 mill.
Incl. $75.0 mill. 8.05% tax-deductible Quarterly Income Preferred Securities. Excl. $312.8 mill. accounts receivable sale.
(LT interest earned: 3.9x)
Leases, Uncapitalized Annual rentals $17.9 mill.
Pension Assets-12/02 $265.7 mill. Oblig. $288.8 mill.
Pfd Stock None
Common Stock 86,127,331 shs. as of 4/30/03
MARKET CAP: $2.2 billion (Mid Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
[illegible]	[illegible]	672.9	[illegible]	753.6	1039.7	1131.8	1331.9	1527.7	1506.9	1640	1720	Revenues ($mill) A	[illegible]
62.6	49.5	52.3	[illegible]	83.6	94.5	110.2	118.2	133.0	119.0	135	140	Net Profit ($mill)	[illegible]
30.1%	22.3%	23.3%	21.0%	35.8%	36.4%	38.3%	36.1%	36.2%	37.9%	38.0%	38.0%	Income Tax Rate	[illegible]
1.3%	1.7%	1.9%	1.3%	1.8%	1.1%	.6%	1.0%	.8%	.7%	1.0%	1.0%	AFUDC % to Net Profit	[illegible]
49.4%	49.6%	50.3%	49.2%	47.5%	43.0%	43.9%	53.3%	46.9%	37.4%	42.5%	42.0%	Long-Term Debt Ratio	[illegible]
46.8%	46.4%	45.9%	43.3%	45.1%	50.2%	49.6%	46.7%	53.1%	62.6%	57.5%	58.0%	Common Equity Ratio	[illegible]
1207.3	1211.6	1272.2	1411.8	1442.8	1564.3	1625.1	1928.1	2152.6	1968.7	2280	2320	Total Capital ($mill)	[illegible]
1065.9	1080.4	1123.7	1287.8	1272.8	1287.0	1258.8	1479.7	1324.0	1364.9	1415	1425	Net Plant ($mill)	[illegible]
6.8%	5.9%	5.8%	7.0%	7.5%	7.6%	8.3%	7.7%	8.0%	7.8%	7.5%	7.5%	Return on Total Cap'l	9.0%
10.2%	8.1%	8.3%	10.3%	11.0%	10.6%	12.1%	13.1%	11.6%	9.7%	10.5%	10.5%	Return on Shr. Equity	11.5%
10.5%	8.2%	8.4%	10.9%	11.6%	11.0%	12.7%	13.0%	11.6%	9.7%	10.5%	10.5%	Return on Com Equity E	11.5%
1.1%	NMF	NMF	1.2%	2.0%	2.7%	3.6%	4.8%	4.5%	2.4%	3.0%	3.0%	Retained to Com Eq	4.5%
90%	121%	117%	90%	84%	77%	74%	64%	62%	75%	70%	70%	All Div'ds to Net Prof	60%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+5.7	-6.7	+5.3
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (¢)	3.74	3.90	3.57
Capacity at Peak (Mw)	NA	NA	1512
Peak Load, Winter (Mw)	1454	1376	1402
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+.9	+.7	+.8
Fixed Charge Cov. (%)	333	354	377

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	8.5%	7.0%	5.0%
"Cash Flow"	4.5%	6.0%	3.5%
Earnings	4.0%	8.6%	3.5%
Dividends	1.5%	1.0%	2.5%
Book Value	5.0%	7.0%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	322.6	327.0	323.5	358.8	[illegible]
2001	377.3	405.5	383.3	361.6	[illegible]
2002	373.0	377.6	390.0	366.3	1506.9
2003	422.9	400	417.1	400	1640
2004	445	415	445	415	1720

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.43	.48	.50	.26	1.67
2001	.42	.53	.43	.36	1.74
2002	.42	.41	.47	.16	1.46
2003	.47	.40	.50	.23	1.60
2004	.47	.41	.52	.25	1.65

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.268	.268	[illegible]	.268	1.07
2000	.268	.268	[illegible]	.268	1.07
2001	.268	.268	[illegible]	.268	1.07
2002	.275	.275	[illegible]	.275	1.10
2003	.283	.283			

BUSINESS: ALLETE is the parent company of Minnesota Power (MP), which supplies electricity (31% of net inc.) in northeastern MN & northwestern WI. Electric revenue mix, '02: taconite mining/processing, 29%; paper/wood products, 12%; other industrial, 9%; residential, 15%; commercial, 15%; resale, 15%; other, 8%. Other operations incl. automotive remarketing (69%) and real estate. Discontinued water utility operations in '01. Generating sources, '02: coal & lignite, 61%; hydro, 5%; purchased, 34%. '02 reported deprec. rates: energy, 3.1%; auto, 4.3%. Has 14,000 employees, 38,000 common stockholders. Chairman, President & CEO: David G. Gartzke. Inc.: MN. Address: 30 West Superior St., Duluth, MN 55802. Tel.: 218-722-2641. Internet: www.allete.com.

ALLETE is still trying to sell its water utilities. It began trying to divest this nonstrategic business almost two years ago. Two sale agreements for its properties in Florida, each of which would have brought in at least $250 million in cash, after taxes and retirement of related debt, fell through. The company also wants to sell its water businesses in North Carolina and Georgia, but they are much smaller than the Florida properties, and their sale probably won't occur until after a deal in Florida gets done. In view of management's ongoing efforts, the water division continues to be reported as a discontinued operation. Our estimates and projections don't reflect any such transactions, so completion of a deal would prompt us to raise our figures because ALLETE would use the proceeds to retire debt.

The company is considering a corporate separation plan, regardless of what happens to the water division. ALLETE's primary operations are automotive services, which consists primarily of auto auctions, and energy services, which consists of a small electric utility and some nonregulated power plants. (ALLETE still owns some real estate in Florida, but is winding down this business.) Because the company's two main businesses are unrelated, the company believes that the sum of the parts might exceed the whole.

Earnings should make a partial recovery in 2003, followed by an uptick next year. The automotive services division is experiencing a modest rebound in its business, compared with a disappointing 2002 in which revenues rose just 1%. Also, because wholesale power prices are strengthening and most of the company's nonregulated generating capacity is coal-fired, we think the energy services division will increase its profits this year, in contrast to our original expectation. Our 2003 estimate might prove conservative, but we think it's still too early to raise our forecast. Assuming continued growth by the auto services operation, earnings should advance in 2004, but our figure could again prove conservative if wholesale power prices maintain their strength.

This untimely stock's yield is close to the utility average. Total-return potential to 2006-2008 is subpar, however.

Paul E. Debbas, CFA — July 4, 2003

(A) Diluted EPS. Excl. nonrec. gains (losses): '89, 44¢; '90, 18¢; '91, 14¢; '92, [illegible]¢; '94, 21¢; '95, 17¢; '99, (52¢); '00, 44¢; '[illegible], [illegible]6¢; gains on discont. ops.: '95, 5¢; '[illegible], [illegible]¢; '02, 22¢; '03, 7¢. Next earnings report due late July.
(B) Dividends historically paid in early Mar., June, Sept., and Dec. ■ Div'd reinvestment plan available. (C) Incl. intangibles. In '02: $6[illegible]. (D) In mill., adj. for split. (E) Rate base: Orig. cost deprec. Rate all'd on com. eq. in '[illegible]: [illegible]; earned on avg. com. eq., '02: 10.5%. Regulatory Climate: Average.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	45
Earnings Predictability	90

Item 3, Page 2

ALLIANT ENERGY NYSE-LNT

RECENT PRICE 20.02 | P/E RATIO 12.9 (Trailing: 17.7, Median: 14.0) | RELATIVE P/E RATIO 0.77 | DIV'D YLD 5.0% | VALUE LINE 697

High	36.4	36.4	32.9	31.6	32.9	34.4	34.9	32.4	37.8	33.2	[illegible]	20.6
Low	29.6	31.3	26.4	27.3	27.5	26.8	28.0	25.2	25.8	27.5	14.3	15.0

Target Price Range 2006 2007 2008

TIMELINESS 3 Raised [illegible]

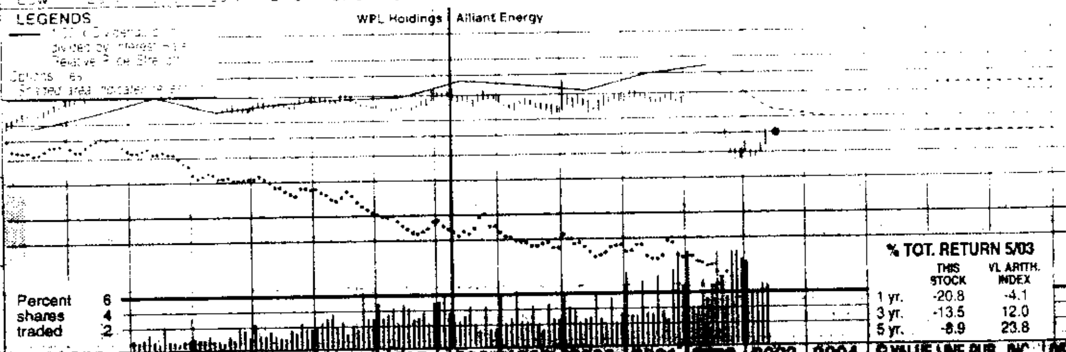
SAFETY 3 [illegible]

TECHNICAL 2 [illegible]

BETA [illegible] (1.00 = Market)

LEGENDS [illegible]

WPL Holdings | Alliant Energy



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+75%)	18%
Low	20	(Nil)	5%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	3	0	1	1	1	7	1	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	71	92	75
to Sell	90	70	63
Hld's(000)	21732	22371	24284

Percent shares traded 6 4 2

% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	-20.8	-4.1
3 yr.	-13.5	12.0
5 yr.	-8.9	23.8

Alliant Energy, formerly called Interstate Energy Corporation, was formed on April 21, 1998 through the merger of WPL Holdings, IES Industries, and Interstate Power. WPL stockholders received one share of Interstate Energy stock for each WPL share, IES stockholders received 1.14 Interstate Energy shares for each IES share, and Interstate Power stockholders received 1.11 Interstate Energy shares for each Interstate Power share. Data prior to 1998 are for WPL Holdings only and are not comparable with Alliant Energy data.

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
25.40	26.52	26.23	30.31	29.86	27.45	27.85	30.44	30.97	28.28	28.65	28.30	Revenues per sh	29.55
4.32	4.93	5.13	5.11	5.60	4.85	5.11	6.57	5.82	4.52	[illegible]	4.76	"Cash Flow" per sh	5.20
2.11	2.24	2.33	2.27	1.90	1.26	2.19	2.47	2.42	1.18	1.55	1.65	Earnings per sh A	1.90
1.90	1.92	1.94	1.97	2.00	2.00	2.00	2.00	2.00	2.00	1.00	1.00	Div'd Decl'd per sh B ■	1.20
4.91	4.01	3.05	4.81	4.10	4.79	6.06	13.50	9.13	7.12	8.40	5.40	Cap'l Spending per sh	4.60
19.15	19.43	19.42	19.74	19.73	20.69	27.29	25.79	21.39	19.89	20.15	21.10	Book Value per sh C	23.30
30.44	30.77	30.77	30.77	30.79	77.63	78.98	79.01	89.68	92.30	107.00	107.50	Common Shs Outst'g D	109.00
16.4	12.8	12.5	13.3	15.0	25.1	13.0	11.8	12.8	19.9	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	14.5
.97	.84	.84	.83	.86	1.31	.74	.77	.65	1.09			Relative P/E Ratio	.95
5.5%	6.7%	6.6%	6.5%	7.0%	6.3%	7.0%	6.9%	6.6%	8.5%			Avg Ann'l Div'd Yield	4.3%
773.1	816.2	807.3	932.8	919.3	2130.9	2198.0	2405.0	2777.3	2608.8	3160	3040	Revenues ($mill)	3220
66.5	73.5	74.9	69.8	64.6	103.4	178.2	203.1	194.9	113.1	165	185	Net Profit ($mill)	220
27.4%	32.5%	32.5%	38.2%	30.8%	38.0%	40.3%	54.0%	23.5%	24.2%	24.0%	24.0%	Income Tax Rate	24.0%
1.6%	1.4%	.9%	1.3%	4.3%	6.6%	4.1%	4.3%	5.7%	6.8%	4.0%	4.0%	AFUDC % to Net Profit	4.0%
39.8%	40.5%	39.6%	35.2%	40.7%	47.3%	39.6%	47.0%	54.7%	58.4%	44.0%	44.0%	Long-Term Debt Ratio	42.5%
54.6%	54.1%	54.9%	59.0%	54.0%	49.2%	57.4%	50.2%	42.7%	38.2%	51.5%	51.5%	Common Equity Ratio	53.0%
1068.0	1105.9	1087.8	1029.9	1125.1	3262.9	3756.0	4061.4	4490.2	4679.1	4200	4410	Total Capital ($mill)	4780
1220.7	1266.3	1299.9	1294.9	1244.8	3101.7	3486.0	3719.3	3862.8	3729.2	4210	4460	Net Plant ($mill)	5010
8.0%	8.3%	8.3%	8.0%	7.4%	4.9%	6.1%	6.6%	6.2%	4.1%	5.0%	5.5%	Return on Total Cap'l	6.0%
10.3%	11.2%	11.4%	10.5%	9.7%	6.0%	7.9%	9.4%	9.6%	5.5%	7.0%	7.5%	Return on Shr. Equity	8.0%
10.7%	11.7%	12.0%	10.9%	10.1%	6.0%	8.0%	9.6%	9.8%	5.8%	7.0%	7.5%	Return on Com Equity E	8.0%
3.8%	3.5%	2.0%	1.0%	NMF	NMF	.7%	1.9%	1.6%	NMF	2.5%	3.0%	Retained to Com Eq	3.0%
67%	72%	84%	92%	100%	NMF	92%	81%	85%	NMF	67%	67%	All Div'ds to Net Prof	65%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $3200.2 mill. Due in 5 Yrs $1169.6 mill.
LT Debt $2659.9 mill. LT Interest $164.2 mill.
(LT interest earned: 1.9x)
Pension Assets-12/02 $466.7 mill. Oblig. $608.5 mill.
Pfd Stock $205.1 mill. Pfd Div'd $11.2 mill.
449,765 shs. $100 par; 6,599,000 shs. $25 par; 1,127,787 shs. $50 par.

Common Stock 92,778,682 shs. as of 4/30/03
MARKET CAP: $1.9 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+1.2	-3.3	+3.2
Avg. Indust. Use (MWH)	4721	4412	4233
Avg. Indust. Revs. per KWH (¢)	3.83	4.38	4.28
Capacity at Peak (Mw)	5186	5153	5068
Peak Load, Summer (Mw)	5397	5677	5729
Annual Load Factor (%)	67.3	73.5	[illegible]
% Change Customers (yr-end)	+1.1	+.5	+1.6
Fixed Charge Cov. (%)	312	195	168

ANNUAL RATES of change (per sh)

	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	[illegible]	5%	[illegible]
"Cash Flow"	2.0%	1.5%	[illegible]
Earnings	-1.0%	-1.5%	4.0%
Dividends	1.0%	.5%	-8.0%
Book Value	3.0%	2.5%	.5%

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	574.1	523.9	633.2	[illegible]	2405.0
2001	852.7	614.8	666.3	643.5	2777.3
2002	608.6	570.9	709.4	719.9	2608.8
2003	895.8	680	780	804.2	3160
2004	720	700	800	820	3040

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.56	.23	.91	.77	2.47
2001	.42	.29	.78	.93	2.42
2002	.11	.07	.49	.51	1.18
2003	.06	.25	.60	.64	1.55
2004	.10	.27	.62	.66	1.65

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.50	.50	.50	.50	2.00
2000	.50	.50	.50	.50	2.00
2001	.50	.50	.50	.50	2.00
2002	.50	.50	.50	.50	2.00
2003	.25	.25			

BUSINESS: Alliant Energy, formerly named Interstate Energy, is a holding company formed through the merger of WPL Holdings, IES Industries, and Interstate Power. Supplies elect. (63% of revs.), gas (18%), and other services (19%) in Wisconsin, Iowa, Minnesota, & Illinois. Revs. by state: WI, 44%; IA, 50%; MN, 4%; IL, 2%. Elect. rev. breakdown: resid., 36%; comm'l, 21%; ind'l, 39%; wholesale, 9%; other, 4%. Fuel sources, '02: coal & gas, 57%; nuclear, 15%; other, 1%; purch., 27%. Fuel costs: 43% of revs. '02 deprec. rate: 3.4%. Est'd plant age: 12 yrs. Has 8,970 empls., 55,470 com. stkhdrs. Chrmn., Pres. & CEO: Erroll B. Davis, Jr. Inc.: WI. Address: 4902 N. Biltmore Lane, P.O. Box 77007, Madison, WI 53707-1007. Tel.: 608-458-3391. Internet: www.alliant-energy.com.

Alliant Energy is adding capacity to cover rising customer demand. Given both an expected 1.5%-2.0% yearly increase in energy usage and a [illegible] reserve margin, it was obvious that the company needed new capacity. As such, it acquired a 300-megawatt (mw) gas-fired unit earlier this year, and plans to add 100 mw of renewable energy by [illegible]. After rejecting bids for a 600-mw gas-fired plant, it began building the unit itself. The facility, which will cost about $400 million, is targeted to go on line next year. In addition, the company has an eight-year option to buy the entire output of Calpine's 450-mw peaking unit, which is scheduled for operation in mid-2004. As additional generation is needed, LNT will either buy or build the necessary power, depending on cost considerations.

The company is divesting nonstrategic assets. In April, it sold its Australian investment for $365 million, which includes a debt repayment of $150 million. After taxes, the sale resulted in net cash proceeds of $170 million, which will be applied to debt reduction. LNT is also pursuing the sale of its oil and gas business, its "affordable" housing investment, and its water operations. These enterprises have a book value including debt of about $900 million. Although they will likely continue to be profitable, they are subject to earnings volatility and don't fit in with management's core strategy. Their sale would allow debt reductions of over $600 million. That would help in the [illegible] rating.

We look for improved earnings this year. The company will benefit from two electric and gas rate hikes totaling $108.2 million and from higher energy sales. Too, Brazilian operations will probably suffer a lesser loss than they did in 2002, because of higher energy usage. Thus, despite an increase in shares outstanding, we estimate a 31% rise in 2003 earnings, to $1.55 a share, and a small gain next year.

The yield is a full percentage point above the industry norm. And based on our forecast of improved earnings over the next 3 to 5 years, dividend growth prospects over the same period exceed those of the group. Income-oriented investors might take a look here.

Arthur H. Medalie *July 4, 2003*

(A) Diluted EPS. Excl. nonrecur. gains (losses): '94, (11¢); '95, (43¢); '96, (4¢) and 11¢; '99, 32¢; '00, $2.56; '01, (28¢); '03, (7¢). Next egs. rpt. due late July. (B) Div'ds historically paid in mid-Feb., mid-May, mid-Aug., and mid-Nov. ■ Div'd reinvest. plan avail. (C) Incl. deferred chgs. in '02: $419.0 mill., $4.54/sh. (D) In mill. (E) Rate case: Orig. cost. Rate allowed on com. eq. in '03, WI, 12.0%; IA, 11.15%; earned on avg. com. eq., '02: 5.7%. Regul. Clim.: WI, Above Avg.; IA, Below Avg.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	25
Earnings Predictability	60

Item 3, Page 3

BLACK HILLS CORP. NYSE-BKH

RECENT PRICE	P/E RATIO	(Trailing / Median)	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
30.56	13.9	(Trailing: 13.1 / Median: 13.0)	0.81	4.0%	1778

TIMELINESS 3 Raised 11/15/02
SAFETY 3 Lowered 8/15/03
TECHNICAL 3 Raised 7/25/03
BETA .80 (1.00 = Market)

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+30%)	10%
Low	30	(Nil)	3%

Insider Decisions

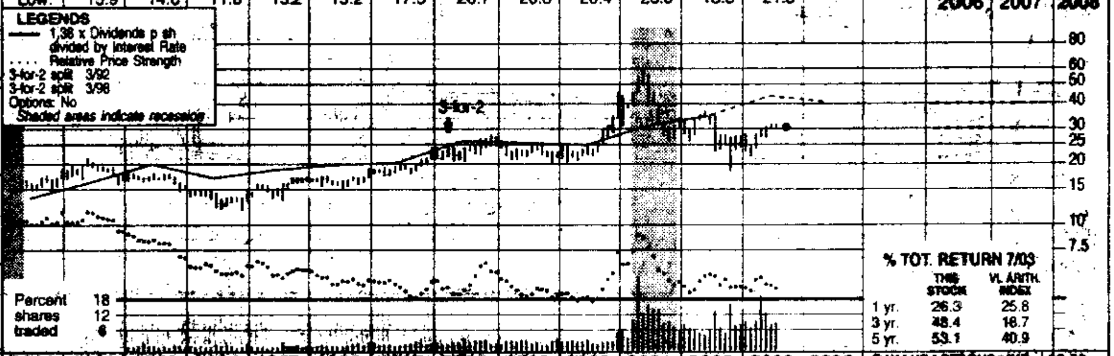
	S	O	N	D	J	F	M	A	M
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	1	0	0	0	0
to Sell	0	0	0	1	1	0	0	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	69	71	78
to Sell	46	45	45
Hld's(000)	11475	11330	12187

High:	21.5	18.8	15.2	17.4	19.2	24.3	27.9	26.5	46.1	58.5	36.9	31.7
Low:	15.9	14.6	11.8	13.2	15.2	17.5	20.7	20.3	20.4	26.0	18.3	21.8

Target Price Range 2006 2007 2008



% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	26.3	25.8
3 yr.	48.4	18.7
5 yr.	53.1	40.9

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
5.38	13.84	[illegible]	6.22	6.50	6.59	6.51	6.74	6.92	7.50	14.45	31.48	57.05	69.69	57.96	15.64	37.65	40.75	Revenues per sh	45.50
1.40	1.51	1.39	1.80	1.80	1.82	1.82	1.92	2.00	2.45	2.52	2.72	2.88	3.68	5.27	4.90	4.85	5.10	"Cash Flow" per sh	6.25
.97	1.02	[illegible]	[illegible]	1.11	1.15	1.11	1.11	1.19	1.40	1.49	1.60	1.70	2.37	3.42	2.33	2.20	2.30	Earnings per sh A	2.75
.55	[illegible]	[illegible]	[illegible]	.78	.80	.85	.88	.89	.92	.95	1.00	1.04	1.08	1.12	1.16	1.20	1.24	Div'd Decl'd per sh B ■	1.36
.85	[illegible]	[illegible]	[illegible]	1.25	1.05	1.88	4.78	2.40	1.13	.88	1.18	4.89	5.79	14.07	8.60	3.40	3.60	Cap'l Spending per sh	3.50
5.38	5.80	[illegible]	[illegible]	7.02	7.28	7.65	8.13	8.43	8.91	9.06	9.50	10.14	11.95	18.35	19.54	21.40	22.50	Book Value per sh C	26.50
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	21.94	[illegible]	[illegible]	[illegible]	[illegible]	23.30	26.69	27.10	32.25	32.50	Common Shs Outst'g D	33.25
10.5	11.?	[illegible]	[illegible]	[illegible]	[illegible]	15.1	12.4	13.1	[illegible]	[illegible]	[illegible]	[illegible]	10.9	11.4	12.5	Bold figures are		Avg Ann'l P/E Ratio	12.5
.70	[illegible]	[illegible]	[illegible]	[illegible]	.98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	.71	.58	.68	Value Line		Relative P/E Ratio	.85
5.? %	5.?%	[illegible]	[illegible]	[illegible]	4.?%	5.?%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.9%	4.0%	estimates		Avg Ann'l Div'd Yield	4.0%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $978.3 mill. Due in 5 Yrs $719.2 mill.
LT Debt $916.9 mill. LT Interest $29.6 mill.
(LT interest earned: [illegible])
Leases, Uncapitalized None
Pension Assets-12/02 $32.4 mill. Oblig. $50.9 mill.
Pfd Stock $5.5 mill. Pfd Div'd $.2 mill.
5,177 shs., ea. conv. into 28.57 shs. of common. Div'd is based on 1% rate plus equivalent of common div'ds on a fully converted basis.
Common Stock 32,063,278 shs.
as of 4/30/03
MARKET CAP: $975 million (Small Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
156.4	145.4	[illegible]	[illegible]	[illegible]	[illegible]	791.9	1623.8	1558.6	423.9	1215	1325	Revenues ($mill)	1510
22.9	23.8	25.6	30.3	32.4	34.6	36.5	52.8	88.1	63.2	70.8	75.0	Net Profit ($mill)	95.0
28.1%	30.4%	29.6%	31.0%	30.7%	32.2%	29.8%	36.5%	36.5%	31.9%	34.0%	34.0%	Income Tax Rate	34.0%
3.2%	18.7%	22.9%	1.2%	.6%	.7%	3.3%	3.8%	8.5%	18.2%	6.0%	5.0%	AFUDC % to Net Profit	4.0%
33.7%	42.4%	47.7%	46.0%	44.5%	43.9%	42.6%	52.1%	44.7%	53.6%	58.5%	60.0%	Long-Term Debt Ratio	57.0%
66.3%	57.6%	52.3%	54.0%	55.7%	56.1%	57.4%	47.2%	54.7%	45.9%	41.0%	39.5%	Common Equity Ratio	43.0%
253.4	304.3	348.4	357.9	366.8	368.7	377.3	589.4	931.0	1154.0	1675	1845	Total Capital ($mill)	2050
288.7	363.5	393.3	406.4	401.1	389.6	464.2	794.3	1238.2	1476.3	1635	1860	Net Plant ($mill)	2445
10.6%	9.3%	9.2%	10.4%	10.6%	11.2%	11.4%	10.6%	10.6%	6.6%	5.0%	5.5%	Return on Total Cap'l	6.5%
13.6%	13.6%	14.0%	15.7%	15.8%	16.7%	16.8%	18.7%	17.1%	11.8%	10.0%	10.5%	Return on Shr. Equity	11.0%
13.6%	13.6%	14.0%	15.7%	15.8%	16.7%	16.8%	19.0%	17.2%	11.9%	10.0%	10.5%	Return on Com Equity E	11.0%
3.1%	2.8%	3.4%	5.9%	5.8%	6.2%	6.4%	10.5%	11.6%	6.0%	4.5%	5.0%	Retained to Com Eq	5.5%
77%	79%	75%	66%	63%	63%	62%	45%	33%	50%	55%	53%	All Div'ds to Net Prof	49%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+2.2	+2.2	-3.4
Avg. Indust. Use (MWH)	11335	11062	9516
Avg. Indust. Revs. per KWH (¢)	4.75	4.72	4.93
Capacity at Peak (Mw)	463	460	495
Peak Load, Summer (Mw)	372	392	387
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+1.5	+1.1	+1.2
Fixed Charge Cov. (%)	376	418	241

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	22.0%	36.0%	1.0%
"Cash Flow"	10.5%	14.5%	5.0%
Earnings	9.0%	16.0%	6%
Dividends	3.5%	4.0%	3.5%
Book Value	8.5%	13.5%	8.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	247.9	[illegible]	[illegible]	595.7	1623.8
2001	561.7	[illegible]	[illegible]	275.4	1558.6
2002	95.8	105.4	112.6	110.1	423.9
2003	299.3	300.0	310	305.7	1215
2004	335	325	340	325	1325

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.42	.38	.71	.83	2.37
2001	1.37	1.34	.61	.18	3.42
2002	.55	.54	.64	.60	2.33
2003	.62	.48	.60	.50	2.20
2004	.55	.60	.63	.52	2.30

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.26	.26	.26	.26	1.04
2000	.27	.27	.27	.27	1.08
2001	.28	.28	.28	.28	1.12
2002	.29	.29	.29	.29	1.16
2003	.30	.30			

BUSINESS: Black Hills Corporation is a holding company for Black Hills Power and Light, which provides electricity to 60,000 customers in South Dakota, Wyoming, and Montana. Electric revenue breakdown, '02: residential, 23%; commercial, 29%; industrial, 12%; other, 36%. Generating sources, '02: coal, 50%; oil & gas, 39%; purchased, 11%. Mines coal and explores for & produces oil & gas. Black Hills FiberCom is a telecom joint venture. Acq'd Wickford Energy Marketing 7/97; Mallon Resources 3/03. Fuel costs: 15% of revs. '02 depr. rate: 3.6%. Has 840 employees, 16,000 com. stockholders. Chrmn. & CEO: Daniel P. Landguth. Pres. & COO: Everett E. Hoyt. Inc.: SD. Address: P.O. Box 1400, Rapid City, SD 57709. Tel.: 605-721-1700. Web: www.blackhillscorp.com.

Black Hills will likely post an earnings decline this year, followed by a modest rebound in 2004. The main negative factors are dilution stemming from a $118 million stock offering last April and a $0.10 charge to settle an improper trading investigation. This is outweighing growth in the company's independent-power business, a significant expansion of its oil and gas operation through an acquisition that should boost annual production by at least 50%, and a reduced loss at Black Hills FiberCom, a telecommunications joint venture. Black Hills FiberCom will probably lose $3.5 million-$4.0 million in 2003 (about half the deficit of 2002), and it should reduce its loss again next year.

We have lowered Black Hills' Financial Strength rating from A to B+ and have reduced the stock's Safety rank from 2 to 3 (Average). The company's "cash flow" usually doesn't cover its capital spending and dividend needs, necessitating the external financing. In addition, the capitalization ratios and fixed charge coverage, while respectable, aren't high enough to justify an A rating for Financial Strength. Finally, Black Hills is facing counterparty risk with one of its projects, though we note that the counterparty has posted a $15 million letter of credit.

Black Hills has agreed to sell some hydro assets for $186 million. They are located in the East, so they are not a good geographical fit with the company's western generating facilities. Black Hills will use part of the proceeds to retire $82 million of associated debt and decide what to do with the rest of the money later. We believe the assets are being sold at or above book value; any gain on the sale will be treated as a nonrecurring item. The deal should close later in the third quarter.

Look at the bottom line, not the top line. Revenues have fluctuated greatly due to changes in accounting procedures for the energy-marketing business. These changes have no effect on profits.

This stock offers an average yield, by utility standards. We project healthy earnings growth to 2006-2008 (though not matching management's aggressive goal of 8%), along with annual dividend hikes over that time. Even so, 3- to 5-year total-return potential is unspectacular.

Paul E. Debbas, CFA *August 15, 2003*

(A) Diluted EPS. Excl. nonrecurring gain (losses): '98, (41¢); '99, 3¢ net; '02, (6¢) net; '03, 4¢ net. '00 & '01 EPS don't add due to change in shares outstanding. Next earnings report due late October. (B) Dividends historically paid in early March, June, Sept., and Dec. ■ Div'd reinvestment plan available. (C) Incl. deferred charges. In '02: $111.6 mill., $4.12/sh. (D) In mill., adj. for stock splits. (E) Rate base: Net orig. cost. Rate allowed on com. eq. in '99: None specified. Earned on avg. com. eq. '02: 12.0%. Regulatory Climate: Above Average.

Company's Financial Strength	B+
Stock's Price Stability	70
Price Growth Persistence	60
Earnings Predictability	50

Item 3, Page 4

CINERGY NYSE-CIN

PRICE 37.38 P/E RATIO 14.1 (Trailing 15.3, Median 14.0) RELATIVE P/E RATIO 0.84 DIV'D YLD 5.0% VALUE LINE 703

Target Price Range 2006 2007 2008

TIMELINESS 3
SAFETY 2
TECHNICAL 3
BETA

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+35%)	12%
Low	40	(+5%)	7%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	2	0	0	0	0	1
to Sell	0	0	0	0	0	0	1	0	1

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	128	164	163
to Sell	137	111	108
Hld's(000)	100544	104845	112384

Percent shares traded: 9, 6, 3

% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	10.0	-4.1
3 yr.	65.0	12.0
5 yr.	53.4	23.8

Cinergy was formed on October 24, 1994 through the merger of Cincinnati Gas & Electric and PSI Resources. Each common share of Cincinnati Gas & Electric was exchanged for 1.00 share of Cinergy, while each common share of PSI Resources was exchanged for 1.023 Cinergy shares. Pre-merger data are figures for Cincinnati Gas & Electric only and are not comparable to Cinergy data.

CAPITAL STRUCTURE as of 3/31/03
Total Debt $4623.5 mill. **Due in 5 Yrs** $2374.5 mill.
LT Debt $3977.0 mill. **LT Interest** $209.0 mill. (LT interest earned: 3.8x)
Pension Assets-12/02 $756.5 mill. Oblig.-$1314.9 mill.
Pfd Stock $371.5 mill. **Pfd Div'd** $24.7 mill. 552,451 shs. 3.5% to 6.875% ($100 par), callable at $100 to $108 a sh.; 303,544 shs. 4.16% to 4.32% $25 par, call. at $25; $308.2 mill. preferred trust securities.

Common Stock 175,376,919 shs.
MARKET CAP: $6.6 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWh)	+3.8	-1.0	+.8
Avg. Indust. Use (MWH)	2880	2751	2701
Avg. Indust. Revs. per KWH (¢)	3.79	4.10	4.01
Capacity at Peak (Mw)	10996	11083	11249
Peak Load, Summer (Mw)	10141	11091	11133
Annual Load Factor (%)	63.8	NA	NA
% Change Customers (yr-end)	+2.0	+1.3	+.8
Fixed Charge Cov. (%)	365	328	282

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	14.0%	25.0%	
"Cash Flow"	2.5%	3.0%	
Earnings	.5%	2.0%	
Dividends	1.0%	.5%	
Book Value	1.5%	2.5%	

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	1583	1770	2308	2769	8422
2001	3707	3642	3324	2250	12923
2002	2192	2471	3880	3417	11960
2003	1282	*1320*	*1800*	*1658*	*6060*
2004	*1310*	*1350*	*1830*	*1690*	*6180*

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.87	.47	.58	.58	2.50
2001	.75	.51	.80	.69	2.75
2002	.58	.27	.78	.59	2.22
2003	.80	*.45*	*.80*	*.60*	*2.65*
2004	.72	*.50*	*.85*	*.68*	*2.75*

Calendar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.45	.45	.45	.45	1.80
2000	.45	.45	.45	.45	1.80
2001	.45	.45	.45	.45	1.80
2002	.45	.45	.45	.45	1.80
2003	.46	.46			

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
	19.89	18.54	19.23	20.57	27.59	37.04	37.36	52.98	81.07	70.91	*34.20*	*34.35*	Revenues per sh	*34.80*
	3.87	3.13	3.98	3.99	4.75	4.02	4.34	4.87	5.15	4.59	*5.10*	*5.35*	"Cash Flow" per sh	*6.00*
	2.16	1.30	2.22	2.19	2.30	1.97	2.10	2.50	2.75	2.22	*2.65*	*2.75*	Earnings per sh A	*3.05*
	1.68	1.72	1.72	1.74	1.80	1.80	1.80	1.80	1.80	1.80	*1.84*	*1.88*	Div'd Decl'd per sh B=	*2.00*
	2.26	2.09	2.06	2.05	2.08	2.32	2.43	3.27	5.31	5.08	*4.25*	*3.60*	Cap'l Spending per sh	*2.95*
	17.25	15.56	16.17	16.39	16.10	16.02	16.70	17.36	18.45	19.53	*21.00*	*22.05*	Book Value per sh C	*25.40*
	88.06	155.20	157.67	157.68	157.74	158.66	158.92	158.97	159.40	168.86	*177.10*	*179.80*	Common Shs Outst'g F	*187.90*
	12.5	17.8	11.9	14.1	14.9	17.6	14.2	11.0	11.7	15.0	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*15.0*
	.74	.97	.80	.88	.86	.92	.81	.72	.60	.82			Relative P/E Ratio	*1.00*
	6.2%	7.4%	6.5%	5.6%	5.3%	5.2%	6.1%	6.6%	5.6%	5.4%			Avg Ann'l Div'd Yield	*4.4%*
	1751.7	2924.0	3031.4	3242.7	4352.8	5876.3	5937.9	8422.0	12923	11960	*6060*	*6180*	Revenues ($mill)	*6540*
	214.0	226.1	378.0	369.0	472.0	318.1	340.8	404.1	446.8	364.0	*485*	*515*	Net Profit ($mill)	*595*
	31.7%	40.2%	36.7%	37.2%	34.5%	26.9%	38.0%	38.4%	36.4%	30.2%	*35.0%*	*36.0%*	Income Tax Rate	*36.0%*
	3.1%	6.2%	2.7%	2.0%	1.2%	.5%	1.2%	2.0%	7.3%	5.9%	*5.0%*	*4.0%*	AFUDC % to Net Profit	*3.0%*
	49.7%	48.4%	46.3%	47.7%	44.2%	49.7%	52.1%	50.2%	52.1%	52.7%	*50.0%*	*48.0%*	Long-Term Debt Ratio	*43.0%*
	41.3%	43.1%	46.6%	48.6%	52.2%	48.5%	46.3%	48.2%	42.6%	42.5%	*45.5%*	*47.5%*	Common Equity Ratio	*53.0%*
	3678.3	5667.5	5467.5	5313.7	4868.1	5238.3	5735.6	5728.2	6907.4	7745.3	*8175*	*8315*	Total Capital ($mill)	*9020*
	3785.6	6139.9	6251.1	6289.6	6297.1	6344.5	6417.5	6630.4	8236.9	8648.7	*8960*	*9140*	Net Plant ($mill)	*9200*
	7.9%	6.0%	8.9%	8.7%	11.6%	7.7%	7.7%	8.4%	7.9%	6.1%	*7.5%*	*7.5%*	Return on Total Cap'l	*8.0%*
	11.6%	7.8%	12.9%	13.3%	17.4%	12.1%	12.4%	14.2%	13.5%	9.3%	*12.0%*	*12.0%*	Return on Shr. Equity	*11.5%*
	12.4%	7.8%	13.6%	13.4%	18.1%	12.3%	12.6%	14.5%	15.0%	10.3%	*12.5%*	*12.5%*	Return on Com Equity D	*12.0%*
	2.8%	NMF	3.1%	2.8%	6.9%	1.1%	1.9%	4.1%	5.3%	1.9%	*4.0%*	*4.0%*	Retained to Com Eq	*4.0%*
	80%	113%	79%	81%	63%	91%	86%	72%	65%	83%	*71%*	*70%*	All Div'ds to Net Prof	*67%*

BUSINESS: Cinergy Corp. is a holding company formed through the merger of Cincinnati Gas & Electric and PSI Resources. Supplies elect. (85% of revs.) to 1,500,000 customers, natural gas (15%) to 496,000 customers, in Ohio, Kentucky, and Indiana. Elect. (Gas) revs. resid. 43% (66%); commer., 28% (26%); indust., 25% (4%); other 4% (4%). The primary metal and chemical industries are the largest customers. Fuel costs: 38% of revenues '02 deprec. rate: 3.0%. Est'd plant age: 12 years. Fuels: coal, 87%; natural gas, 8%; other, 5%. Has 7,823 employees, 55,637 common stockholders. Chairman, President & CEO: James E. Rogers, Inc.: Delaware. Address: 139 East 4th St., Cincinnati, OH 45202. Tel.: 513-381-2000. Internet: www.cinergy.com.

Cinergy's capital budget soared in 2001, and will remain high through 2005, largely because of the need to comply with the U.S. Environmental Protection Agency's directive to reduce nitrogen oxide emissions at the company's coal-fired plants. EPA had filed suit against CIN for noncompliance with The Clean Air Act and seeks $27,500 per day for each violation since March, 2000. To meet EPA requirements, management converted its Noblesville coal-burning unit to a gas burner and is making similar changes at nine small coal plants. The bulk of the $800 million outlays to lower pollution and upgrade nitrogen oxide reduction technology is near completion and should be finalized next year. Construction spending will then decline, and CIN should be able to induce the EPA to drop its lawsuit.

The company has lowered its rate request in Indiana by $25 million, to $200 million. The revised amount reflects an updated evaluation of the utility's needs. The application seeks recovery of the $376 million purchase of two natural gas-fired units from CIN's unregulated affiliate, the repowering of the Noblesville unit, and improvements to the transmission system. In addition, some $68 million is being sought for environmental expenditures. Under Indiana law, a portion of this amount will be phased in prior to 2004 for preapproved projects. A regulatory order on the petition is due in February.

Earnings are on an upward path. Positives include a reduced headcount resulting from last year's retirement program, a likely 1%-2% rise in retail energy sales, and a full year of the May, 2002 gas rate increase in Ohio. But these gains will be pared somewhat by the dilutive effect of more common shares outstanding and higher pension and medical costs. On balance, we look for 2003 earnings of $2.65 a share. A likely rate hike in Indiana suggests improved results next year.

Income-oriented investors might consider these shares. The yield is a full percentage point above the industry norm. Too, a reduction in environmental spending and our projection of steady earnings growth to 2006-2008 should allow increased dividends at a rate a cut above that of the group.

Arthur H. Medalie *July 4, 2003*

(A) EPS diluted. Excl. extraord. gains (losses): '93, ($2.55); '96, (12¢); '97, (69¢); '98, (32¢); '99, 43¢; '03 15¢. Next egs. rpt. due late July. (B) Div'ds historically paid mid-Feb., mid-May, mid-Aug., and mid-Nov. ■ Div'd reinvest. plan avail. (C) Incl. def. chgs. In '02, $6.41/sh. (D) Rate base: net original cost. Allowed on com. eq.: Ohio, '93, elect., 12.9%; Indiana in '96, 11.0%. Earned avg. com. eq. '02, 11.9%. Regul. Clim.: Above Avg. (E) Pro forma. (F) In mill., adjust. for split.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	25
Earnings Predictability	90

Item 3, Page 5

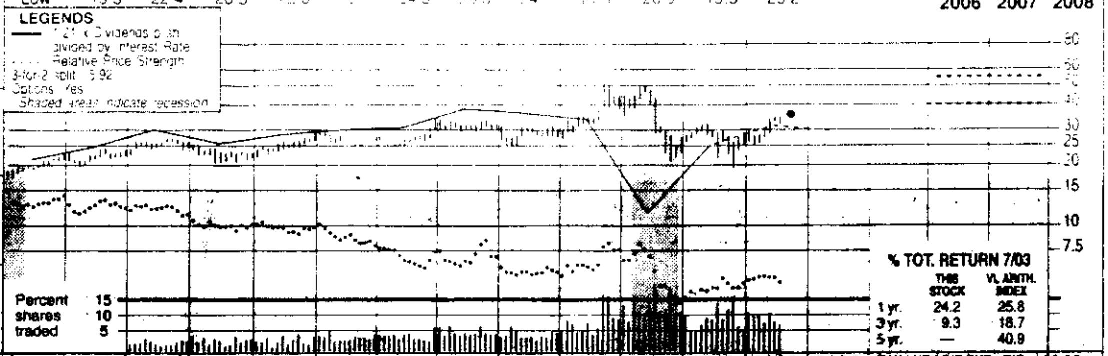
CONSTELL'N EGY GP. NYSE-CEG

RECENT PRICE 35.77 | P/E RATIO 12.9 (Trailing: 15.5 Median: 14.0) | RELATIVE P/E RATIO 0.74 | DIV'D YLD 3.0% | VALUE LINE 159

TIMELINESS 3 Raised 6/7/02
SAFETY 2 Lowered 3/20/92
TECHNICAL 3 Lowered 3/2/03
BETA .75 (1.00 = Market)

High:	24.4	27.5	25.5	29.0	[illegible]	34.3	[illegible]	31.5	52.1	50.1	32.4	35.9
Low:	19.8	22.4	20.5	22.0	[illegible]	24.8	29.0	24.7	27.1	20.9	19.3	25.2

Target Price Range 2006 2007 2008



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+55%)	14%
Low	40	(+10%)	6%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	1	0
to Sell	0	0	0	0	0	0	0	1	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	116	119	145
to Sell	126	120	100
Hld's(000)	113370	105655	104588

% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	24.2	25.8
3 yr.	9.3	18.7
5 yr.	—	40.9

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
15.28	15.67	16.63	17.81	19.41	17.33	18.27	18.86	19.89	21.35	22.40	22.50	25.32	25.77	24.00	28.53	57.15	59.55	Revenues per sh	71.95
3.84	3.98	3.45	2.91	3.08	3.10	3.45	3.93	4.59	4.45	4.66	4.93	5.57	5.78	5.02	5.50	5.90	6.25	"Cash Flow" per sh	7.80
2.31	2.31	2.03	1.40	1.52	1.63	1.85	1.93	2.02	1.85	1.97	2.06	2.18	2.30	2.20	2.29	2.70	2.95	Earnings per sh A	4.00
1.25	1.32	1.39	1.40	1.40	1.43	1.47	1.51	1.55	1.59	1.63	1.67	1.68	1.68	.48	.96	1.04	1.12	Div'd Decl'd per sh B■	1.36
2.74	3.86	4.05	4.42	3.60	2.71	3.27	3.27	2.48	2.44	2.53	2.27	2.92	7.17	8.05	5.05	4.40	3.95	Cap'l Spending per sh	3.50
14.83	15.85	16.60	17.10	17.00	17.63	17.94	18.42	19.07	19.35	19.44	19.98	20.01	20.95	23.48	23.43	24.20	25.85	Book Value per sh C	32.65
118.37	118.95	120.52	121.21	126.69	143.78	146.03	147.53	147.53	147.67	147.67	149.25	149.56	150.53	163.71	164.84	166.25	167.50	Common Shs Outst'g D	165.00
9.1	9.1	10.4	13.7	13.2	13.6	13.8	11.8	12.4	14.7	14.0	15.3	13.2	15.8	16.4	12.1	Bold figures are		Avg Ann'l P/E Ratio	11.5
.61	.76	.79	1.02	.84	.82	.82	.77	.83	.92	.81	.80	.75	1.03	.84	.66	Value Line		Relative P/E Ratio	.75
6.0%	6.3%	6.6%	7.3%	7.0%	6.5%	5.8%	6.6%	6.2%	5.9%	5.9%	5.3%	5.8%	4.6%	1.3%	3.5%	estimates		Avg Ann'l Div'd Yield	3.0%
						2668.7	2783.0	2934.8	3153.2	3307.6	3358.1	3786.2	3878.5	3928.3	4703.0	9500	9975	Revenues ($mill)	11875
						309.9	323.6	338.0	310.8	320.3	327.7	339.9	358.5	366.3	372.1	460	505	Net Profit ($mill)	675
						30.8%	32.2%	33.4%	34.9%	35.8%	35.2%	35.4%	39.1%	34.6%	40.3%	38.0%	38.0%	Income Tax Rate	38.0%
						7.3%	10.4%	6.5%	8.3%	5.2%	4.1%	2.9%	--	15.7%	11.8%	11.0%	10.0%	AFUDC % to Net Profit	8.0%
						47.1%	44.6%	43.9%	46.3%	48.5%	49.7%	44.7%	48.8%	40.2%	53.2%	55.0%	55.0%	Long-Term Debt Ratio	53.5%
						43.7%	46.9%	47.5%	47.9%	46.6%	47.3%	52.0%	48.5%	57.0%	44.8%	43.0%	43.0%	Common Equity Ratio	45.0%
						5995.3	5791.5	5922.1	5960.4	6159.3	6299.6	5758.4	6502.3	6746.1	8888.2	9415	10000	Total Capital ($mill)	12000
						5196.9	5416.8	5497.6	5582.4	5651.5	5656.7	5523.1	6644.0	7700.4	7957.1	9535	9900	Net Plant ($mill)	11100
						6.9%	7.2%	7.3%	6.7%	6.8%	6.9%	7.5%	7.1%	6.5%	5.9%	6.5%	6.5%	Return on Total Cap'l	7.0%
						9.8%	10.1%	10.2%	9.7%	10.1%	10.3%	10.7%	10.7%	9.1%	9.2%	11.0%	11.0%	Return on Shr. Equity	12.0%
						10.2%	10.4%	10.6%	9.6%	10.1%	10.3%	10.9%	11.0%	9.2%	9.3%	11.0%	11.5%	Return on Com Equity E	12.0%
						2.1%	2.3%	2.5%	1.4%	1.8%	2.0%	2.5%	3.0%	6.0%	5.7%	7.0%	7.0%	Retained to Com Eq	8.0%
						82%	80%	79%	87%	84%	81%	78%	74%	37%	41%	38%	40%	All Div'ds to Net Prof	35%

CAPITAL STRUCTURE as of 6/30/03
Total Debt $5645.4 mill. Due in 5 Yrs $2755 mill.
LT Debt $5063.8 mill. LT Interest $315.0 mill.
(LT interest earned: 3.0x)
Pension Assets-12/02 $767.7 mill.
Oblig. $1.25 bill.
Pfd Stock $190.0 mill. Pfd Div'd $13.2 mill.
Incl.: 400,000 shs. 7.125% preference, callable 7/1/03; 500,000 shs. 6.97% pref., call. 10/1/03; 400,000 shs. 6.70% pref., call. 1/1/04; 600,000 shs. 6.99% pref., call. 10/1/05; all $100 par, not subj. to mand. redemption.
Common Stock 166,500,000 shs.
MARKET CAP: $6.0 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+3.2	+.4	+4.7
[illegible]	895	889	913
[illegible]	[illegible]	[illegible]	3.79
[illegible]	[illegible]	[illegible]	6466
[illegible]	N/A	5490	5425
[illegible]	N/A	N/A	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Cal-endar	QUARTERLY REVENUES ($ mill.)				Full Year
2000	[illegible]	[illegible]	[illegible]	[illegible]	3878.5
2001	[illegible]	[illegible]	[illegible]	[illegible]	3928.3
2002	[illegible]	[illegible]	[illegible]	[illegible]	4703.0
2003	2350.0	2271.1	2700	2178.9	9500
2004	2425	2400	2800	2350	9975

Cal-endar	EARNINGS PER SHARE A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2000	[illegible]	[illegible]	[illegible]	[illegible]	2.30
2001	[illegible]	[illegible]	[illegible]	[illegible]	2.20
2002	[illegible]	[illegible]	[illegible]	[illegible]	2.29
2003	.35	.58	1.14	.63	2.70
2004	.42	.34	1.11	.58	2.95

Cal-endar	QUARTERLY DIVIDENDS PAID B■				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
1999	.42	.42	.42	.42	1.68
2000	.42	.42	.42	.42	1.68
2001	.42	[illegible]	[illegible]	[illegible]	[illegible]
2002	.12	.24	.24	.24	.84
2003	.24	[illegible]	[illegible]	[illegible]	

BUSINESS: Constellation Energy Group, a holding company, sells electricity (42% of revenues) and gas (12%) service, through Baltimore Gas and Electric, in central Maryland to a population of 2.5 million. The remaining 46% of revenues are derived from the nonregulated business, Constellation Enterprises. 2002 electric revenue sources: residential, 48.2%; commercial, 41.2%; industrial, 6.6%; other, [illegible]. '02 gas revenue sources: resid'l, 61.7%; com'l, 20.4%; ind'l, [illegible]; other, 13.[illegible]%. Power fuels: coal, [illegible]%; nuclear, 53.4%; [illegible]; other, 2.6%. Has about [illegible] employees, [illegible] stockholders. [illegible] CEO: [illegible] MD [illegible] 21202. [illegible]

Strong results at Constellation Energy [illegible] The company's competitive unit [illegible] [illegible] profits this year [illegible] [illegible] to deal with volatile [illegible] pricing, increased fuel (natural gas) costs, and limited power market liquidity, which all restrained operating income. [illegible] utility, BGE, benefiting from below-normal temperatures, though, helped [illegible] contain the negative year-over-year share-net comparison. In the second quarter (and into the current period), the operating situation reversed. The power market was much less volatile, and merchant operations gained from new wholesale transactions, improved plant productivity and efficiency, and acquisitions (e.g., NewEnergy). Higher nonregulated income more than made up for reduced earnings at BGE brought on by a continuation of cool, wet weather throughout the local service territory. CEG remains on track to attain its 2003 earnings goal of $2.65-$2.85 a share. We have become a bit more conservative regarding our 2003 and 2004 share-net estimates, though, cutting them by a nickel and a dime, respectively. [illegible]

[illegible] to 5 years [illegible] it can save $120 million-[illegible] annually through nuclear [illegible] business [illegible] This would support CEG's [illegible] growing share earnings at a rate close to [illegible] a year. We expect good cash flow progress going forward.

Management is weighing options to boost investor value. It appears that the company [illegible] to invest rising cash balances [illegible] that have the potential for higher long-term returns. Absent any appealing deal, CEG would most likely buy back common and/or pay down debt. In any [illegible] dividend, considering the company's [illegible] favorable earnings potential and its currently low payout ratio, should [illegible] ahead of the industry average. [illegible] is an attractive utility holding [illegible] in 2006-2008.

[illegible] 2003

[illegible] Apr, July, and Oct. ■ Div'd reinvest. plan avail. (C) Incl. def'd charges. '02: $3.29/sh. (D) In [illegible] Earnings [illegible] gas ('98). Earned [illegible] Com. Avg. (F) Incl. [illegible]

Item 3, Page 6

DOMINION RES. NYSE-D

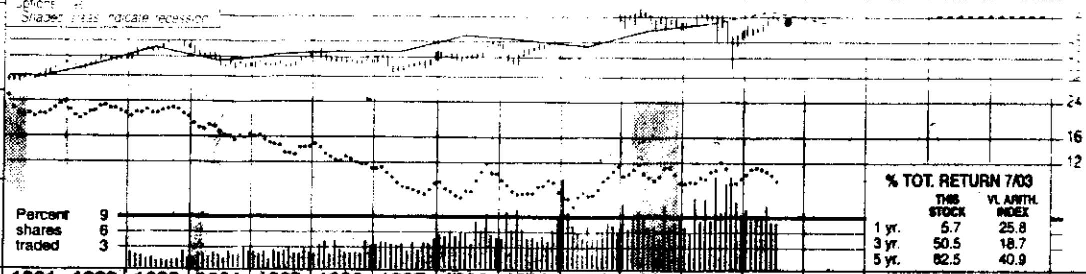
RECENT PRICE 60.51 | P/E RATIO 13.2 (Trailing: [illegible] Median: [illegible]) | RELATIVE P/E RATIO 0.75 | DIV'D YLD 4.3% | VALUE LINE 161

TIMELINESS 4 Lowered 9/5/03
SAFETY 2 Raised 9/11/98
TECHNICAL 3 Lowered 9/5/03
BETA .75 (1.00 = Market)

High:	41.0	49.4	45.4	41.6	44.4	42.9	48.9	49.4	[illegible]	70.0	67.1	65.9
Low:	34.1	38.4	34.9	34.9	36.9	33.3	37.8	36.6	[illegible]	55.1	35.4	51.7

Target Price Range 2006 2007 2008

LEGENDS
[illegible] Dividends p sh divided by Interest Rate
Relative Price Strength
Options: [illegible]
Shaded areas indicate recessions



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	85	(+40%)	12%
Low	65	(+5%)	6%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	1	0	0	0	0	0	1	0	0
Options	0	0	0	0	0	0	11	0	0
to Sell	0	0	0	0	0	0	10	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	243	301	283
to Sell	202	156	174
Hld's(000)	145085	163872	168928

Percent shares traded 9 6 3

% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	5.7	25.8
3 yr.	50.5	18.7
5 yr.	82.5	40.9

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
22.58	22.72	24.52	22.82	23.83	23.14	26.37	26.05	26.37	26.72	40.88	31.30	29.63	37.67	39.89	33.16	36.00	37.85	Revenues per sh	44.00
6.01	6.36	5.82	6.08	6.38	6.04	6.61	6.33	6.00	6.44	7.78	5.97	7.35	7.43	7.84	8.90	8.45	9.40	"Cash Flow" per sh	11.25
3.03	3.01	2.76	2.75	2.94	2.66	3.12	2.81	2.45	2.65	3.00	1.72	2.99	2.50	2.97	4.82	4.70	4.95	Earnings per sh A	5.75
1.99	2.07	2.15	2.23	2.31	2.40	2.48	2.55	2.58	2.58	2.58	2.58	2.58	2.58	2.58	2.58	2.58	2.58	Div'd Decl'd per sh B ■	2.80
5.87	5.62	6.12	5.19	4.58	4.37	4.24	3.83	3.28	2.69	3.45	3.21	4.32	5.63	4.62	4.35	7.70	7.00	Cap'l Spending per sh	9.00
20.96	21.91	22.67	23.41	24.41	25.22	26.38	26.60	26.88	27.17	26.84	27.34	25.50	28.45	31.61	33.15	36.15	38.75	Book Value per sh C	47.25
143.99	147.17	150.91	154.79	158.85	163.84	168.12	172.41	176.41	181.22	187.80	194.46	186.32	245.80	264.70	308.10	325.00	327.50	Common Shs Outst'g D	330.00
9.6	9.5	10.5	10.9	11.3	14.3	14.3	13.8	15.4	14.8	12.5	24.6	14.5	19.4	20.9	12.0	Bold figures are		Avg Ann'l P/E Ratio	13.0
.64	.79	.79	.81	.72	.87	.84	.91	1.03	.93	.72	1.28	.83	1.26	1.07	.66	Value Line		Relative P/E Ratio	.85
6.9%	7.2%	7.4%	7.4%	7.0%	6.3%	5.6%	6.6%	6.9%	6.6%	6.9%	6.1%	5.9%	5.3%	4.1%	4.4%	estimates		Avg Ann'l Div'd Yield	3.7%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $17215.0 mill. Due in 5 Yrs $7136.0 mill.
LT Debt $15104.0 mill. LT Interest $1000.0 mill.
incl. $1397.0 mill. mandatorily redeemable preferred securities of subsidiary trusts.
(LT interest earned: 3.2x)
Leases, Uncapitalized Annual rentals $94.0 mill.
Pension Assets-12/02 $3.07 bill. Oblig. $2.80 bill.
Pfd Stock $257.0 mill. Pfd Div'd $16.0 mill.
1,340,140 shs. $4.04-$7.05, $100 liq. pref., redeemable at $101.00-$112.50/sh.; 2,500,000 var. rate Money Market Pfd. shs. Excl. pfd. due within 1 year.
Common Stock 310,803,869 shs. as of 4/30/03
MARKET CAP: $19 billion (Large Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
4433.9	4491.1	4651.7	4842.3	7677.6	6086.2	5520.0	9260.0	10558	10218	11700	12400	Revenues ($mill)	14500
558.7	520.4	469.1	514.7	603.7	400.0	639.0	624.0	775.0	1378.0	1505	1635	Net Profit ($mill)	1955
27.3%	24.7%	28.0%	29.2%	26.4%	29.0%	29.4%	31.7%	38.4%	33.1%	37.0%	37.0%	Income Tax Rate	37.0%
1.5%	2.0%	2.4%	.9%	.3%	.3%	4.7%	3.5%	5.3%	6.9%	5.0%	6.0%	AFUDC % to Net Profit	5.0%
47.5%	46.6%	45.3%	45.1%	54.1%	44.2%	55.1%	58.3%	60.2%	56.2%	55.5%	54.5%	Long-Term Debt Ratio	52.0%
44.3%	45.3%	46.6%	47.0%	37.9%	46.4%	37.8%	38.9%	38.0%	42.7%	43.5%	44.5%	Common Equity Ratio	47.5%
10004	10113	10178	10476	13311	11461	12582	17987	22063	23927	27075	28525	Total Capital ($mill)	32900
10207	10245	10322	10509	12533	10637	10784	14849	18681	20257	21575	22525	Net Plant ($mill)	25500
7.3%	6.9%	6.4%	6.6%	6.6%	5.7%	6.8%	5.3%	5.3%	7.7%	7.0%	7.5%	Return on Total Cap'l	7.5%
10.6%	9.6%	8.4%	9.0%	9.9%	6.3%	11.3%	8.3%	8.9%	13.2%	12.5%	12.5%	Return on Shr. Equity	12.5%
11.6%	10.5%	9.0%	9.6%	11.0%	6.3%	12.0%	8.0%	9.0%	13.3%	12.5%	13.0%	Return on Com Equity E	12.5%
2.4%	1.0%	NMF	.2%	1.5%	NMF	1.7%	NMF	1.2%	8.3%	6.0%	6.0%	Retained to Com Eq	6.5%
81%	91%	105%	98%	87%	NMF	88%	109%	87%	54%	55%	52%	All Div'ds to Net Prof	49%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+4.3	-1.2	+4.9
Avg. Indust. Use (MWH)	14390	13964	14584
Avg. Indust. Revs. per KWH (¢)	4.06	4.40	NA
Capacity at Peak (Mw)	17728	18000	18080
Peak Load, Summer (Mw)	15464	16500	17084
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+1.9	+1.8	+2.0
Fixed Charge Cov. (%)	[illegible]	[illegible]	273

ANNUAL RATES [illegible]
[illegible] 5.5% [illegible] 6.0% [illegible] 7.5% [illegible]
Book Value [illegible] 3.0% 7.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	[illegible]	2055	[illegible]	2781	9260.0
2001	[illegible]	2390	[illegible]	[illegible]	10558
2002	[illegible]	2339	2545	2701	10218
2003	3584	2635	2830	2651	11700
2004	3650	2850	2900	3000	12400

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	[illegible]	[illegible]	1.05	.44	2.50
2001	[illegible]	[illegible]	1.37	.26	2.97
2002	1.20	[illegible]	1.54	1.11	4.82
2003	1.46	[illegible]	1.35	1.05	4.70
2004	1.35	[illegible]	1.50	1.20	4.95

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.645	.645	.645	.645	2.58
2000	.645	.645	.645	.645	2.58
2001	.645	.645	.645	.645	2.58
2002	.645	.645	.645	.645	2.58
2003	.645	[illegible]			

BUSINESS: Dominion Resources, Inc. (DRI) is a holding company for Virginia Power, which serves 2.2 million customers in Virginia and northeastern NC. Acquired Consolidated Natural Gas (1.7 million customers in OH, PA, WV) 1/00. Nonutility operations include independent power production, oil & gas production. Electric revenue breakdown, '02: residential, 47%; commercial, 30%; industrial, 10%; other, 13%. Generating sources, '02: coal, 43%; nuclear, 32%; oil, 4%; other, 2%; purchased, 19%. Fuel costs: 32% of revenues. '02 deprec. rate: 4.2%. Has 17,000 employees, 350,000 common stockholders. Chairman, President & CEO: Thos. E. Capps. Inc.: Virginia. Address: P.O. Box 26532, Richmond, VA 23261-6532. Telephone: 804-819-2000. Internet: www.dom.com.

Dominion Resources' earnings are likely to decline in 2003. On the positive side, thanks to higher commodity prices, earnings from the oil and gas exploration and production business should rise, despite flattish production. In addition, DRI's cost-reduction program is bearing fruit. But the rise in pension expenses will outweigh these cost savings, and the company will lose $80 million in tax credits that it recorded last year. Sales of common stock in late 2002 and May of 2003 will be dilutive to share earnings. Furthermore, **we will reduce our 2003 estimate once** DRI's purchase of a nonutility power plant (in connection with the buyout of an above-market contract) closes, probably in the fourth quarter. The cost of buying out the contract will reduce aftertax earnings by $65 million-$85 million, but we will not include this charge in our figures until the deal has closed. (DRI is excluding it from its 2003 earnings guidance of $4.60-$4.80.)
We expect an earnings recovery in 2004. Thanks largely to two major projects that are scheduled for commercial operation in the first quarter and second half of 2004, oil and gas production should rise by 10%-15%. Although commodity prices might not reach the lofty levels attained in 2003, DRI [illegible] hedging [illegible] of 2004 production [illegible] hedged, and this proportion should increase over time. The company hedges its power effectively, too, with 90% of its 2004 output hedged as of mid-2003. [illegible] DRI will [illegible] annual earnings-growth target of 5%-7% next year. [illegible]
A dividend hike appears more and more likely. Such a move hasn't occurred since 1994. Management wants to strengthen DRI's credit profile first, and make sure its cash flow is adequate. We conservatively estimate no dividend increase until 2005, but we don't rule one out next year. We've also boosted the projected dividend-growth rate to 2006-2008.
By utility standards, this untimely stock offers an average yield and average 3- to 5-year total-return potential. DRI has avoided most of the problems that have afflicted many companies in this industry, and its strengths appear to be reflected in the share price.
Paul E. [illegible] September [illegible], 2003

(A) [illegible] 86¢; '88, $1.05; [illegible] 83¢; '98, 10¢ net. [illegible] 34; 17¢; '95, 40¢; '98, [illegible] ... [illegible] paid in mid-March, June, Sept., and Dec. ■ Div'd reinvest. plan avail. (C) Incl. deferred [illegible] ... and on com. eq. in '02: none; earned on avg. com. eq., '02: 15.1%. Regulatory Climate: Avg. ... [illegible]

Item 3, page 7

DPL INC. NYSE-DPL

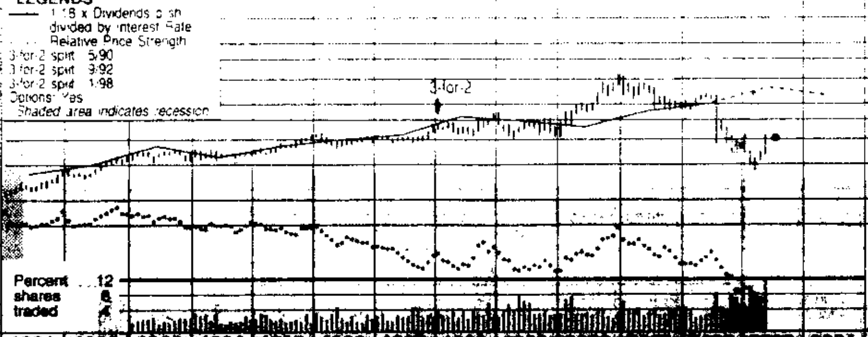
RECENT PRICE 16.18 | P/E RATIO 12.9 (Trailing: 23.4 Median: 14.0) | RELATIVE P/E RATIO 0.77 | DIV'D YLD 5.8% | VALUE LINE 705

TIMELINESS 5 Lowered [illegible]
SAFETY 3 Lowered [illegible]
TECHNICAL 3 Lowered [illegible]
BETA [illegible] (1.00 = Market)

High:	13.3	14.6	14.4	17.1	17.4	19.2	21.8	22.0	33.8	33.3	27.3	17.0
Low:	10.3	12.3	12.3	13.4	14.4	15.3	16.6	16.3	16.4	22.0	13.5	11.2

Target Price Range 2006 | 2007 | 2008

LEGENDS
— 1.18 x Dividends p sh divided by Interest Rate
··· Relative Price Strength
3-for-2 split 5/90
3-for-2 split 9/92
3-for-2 split 1/98
Options: Yes
Shaded area indicates recession



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	25	(+55%)	16%
Low	18	(+10%)	8%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	1	1	1	0	3	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	89	92	86
to Sell	75	64	81
Hld's(000)	46810	45649	40890

Percent shares traded 12 8 4

% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	-34.1	-4.1
3 yr.	-28.2	12.0
5 yr.	16.0	23.8

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
6.72	7.04	6.23	6.09	6.41	6.56	7.42	7.40	[illegible]	7.90	[illegible]	[illegible]	[illegible]	11.25	[illegible]	[illegible]	[illegible]	9.10	Revenues per sh	[illegible]
1.68	1.33	1.29	1.41	1.39	1.57	1.61	[illegible]	1.77	1.87	[illegible]	[illegible]	2.15	2.82	2.70	[illegible]	[illegible]	[illegible]	"Cash Flow" per sh	[illegible]
1.07	.89	.87	.99	.77	.89	.95	1.03	1.09	1.15	1.20	1.24	1.36	1.49	1.74	.72	1.25	1.20	Earnings per sh A	[illegible]
.61	.64	.66	.69	.72	.72	.75	.79	.83	.87	.91	.94	.94	.94	.94	.94	.94	.94	Div'ds Decl'd per sh B ■	[illegible]
.74	1.13	1.57	.96	.66	.38	.73	.59	.63	.68	.71	.66	1.06	2.58	[illegible]	[illegible]	[illegible]	.80	Cap'l Spending per sh	[illegible]
6.81	6.06	6.56	6.88	6.92	6.44	6.62	7.03	7.28	7.55	8.03	8.58	9.20	[illegible]	[illegible]	[illegible]	[illegible]	7.10	Book Value per sh D	[illegible]
140.02	139.69	153.47	155.27	155.27	155.27	155.27	160.43	160.05	159.01	160.20	161.26	167.80	127.77	126.50	126.50	[illegible]	126.50	Common Shs Outst'g C	[illegible]
7.1	8.6	8.2	8.5	12.4	13.1	14.3	13.0	13.6	13.8	13.7	15.1	13.7	16.6	15.4	28.8	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	12.0
.47	.71	.62	.63	.79	.79	.84	.85	.91	.86	.79	.79	.78	1.08	.79	1.57			Relative P/E Ratio	.80
8.0%	8.4%	8.4%	8.2%	7.5%	6.2%	5.5%	5.9%	5.6%	5.5%	5.5%	5.0%	6.1%	6.8%	3.5%	4.5%			Avg Ann'l Div'd Yield	4.2%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $2430 mill. Due in 5 Yrs $981.3 mill.
LT Debt $2430 mill. LT Interest $155.0 mill.
Incl. $292.4 mill. 8.125% mand. redeem. pref'd trust sec. (LT interest earned: 2.2x)
Pension Assets-12/02 $268 mill. **Oblig.** $266 mill.
Pfd Stock $22.9 mill. **Pfd Div'd** $0.9 mill.
Incl. 226,508 shs. 3.75% to 3.90%; call. $101 to $103 per shr.; and 6.8 mill. shrs., mand. redeem., with voting rights for up to 4.9% of total vote.
Common Stock 126,501,404 shs. C

(Excl. warrants: 31.6 mill. exer. at $21 thru 2012.)
MARKET CAP: $2.0 billion (Mid Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
1151.3	1187.9	1255.1	1256.1	1355.8	[illegible]	1338.9	1436.3	1199.6	[illegible]	1170	1150	Revenues ($mill) E	[illegible]
147.7	150.6	184.7	172.9	181.4	[illegible]	204.2	180.0	221.5	87.3	160	145	Net Profit ($mill)	[illegible]
34.7%	38.6%	38.3%	37.4%	36.8%	[illegible]	38.5%	35.5%	35.9%	[illegible]	36.0%	36.0%	Income Tax Rate	36.0%
.6%	--	--	--	--	--	--	--	--	--	--	--	AFUDC % to Net Profit	--
49.2%	48.7%	47.7%	45.3%	42.6%	43.1%	47.5%	72.1%	74.6%	[illegible]	74.0%	71.0%	Long-Term Debt Ratio	62.0%
45.8%	50.3%	51.3%	53.6%	56.4%	56.0%	51.6%	27.2%	24.4%	24.7%	26.0%	29.0%	Common Equity Ratio	38.0%
2243.1	2244.9	2269.2	2237.7	2279.9	2472.5	2811.4	[illegible]	3264.3	3265.8	3310	3080	Total Capital ($mill)	3040
2312.6	2312.2	2281.8	2268.9	2256.2	2238.7	2286.6	2267.0	2482.3	2592.7	[illegible]	2395	Net Plant ($mill)	2300
8.7%	9.2%	9.3%	9.7%	9.7%	9.3%	8.9%	8.2%	9.5%	5.4%	7.0%	7.5%	Return on Total Cap'l	9.5%
13.0%	13.9%	13.9%	14.1%	13.9%	13.4%	13.8%	22.3%	27.0%	10.5%	17.0%	16.5%	Return on Shr. Equity	19.5%
13.5%	13.7%	14.1%	14.3%	14.0%	13.6%	14.0%	22.9%	27.8%	10.8%	17.5%	16.5%	Return on Com Equity F	20.0%
2.9%	3.2%	3.8%	3.4%	3.4%	3.3%	4.2%	6.9%	13.7%	NMF	3.5%	3.5%	Retained to Com Eq	8.5%
80%	77%	76%	76%	76%	76%	70%	61%	51%	155%	95%	95%	All Div'ds to Net Prof	65%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+1.7	-.8	[illegible]
Avg. Indust. Use (MWH)	2516	2400	[illegible]
Avg. Indust. Revs. per KWH (¢)	4.88	5.02	[illegible]
Capacity at Peak (MW)	3194	3973	[illegible]
Peak Load, Summer (MW)	2666	3045	N/A
Annual Load Factor (%)	63.7	N/A	N/A
% Change Customers (yr-end)	+.8	+.4	[illegible]
Fixed Charge Cov. (%)	250	250	[illegible]

ANNUAL RATES of change (per sh)

	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	[illegible]	[illegible]	[illegible]
"Cash Flow"	[illegible]	5.0%	[illegible]
Earnings	4.0%	[illegible]	[illegible]
Dividends	[illegible]	4.5%	[illegible]
Book Value	-0.5%	-3.0%	[illegible]

Cal-endar	QUARTERLY REVENUES ($ mill.) A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	386.6	314.8	[illegible]	[illegible]	[illegible]
2001	297.9	290.2	354.4	[illegible]	[illegible]
2002	276.3	281.7	344.7	[illegible]	[illegible]
2003	295.1	275	300	[illegible]	[illegible]
2004	275	270	300	305	1150

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.38	.26	.55	.30	1.49
2001	.49	.29	.69	.29	1.74
2002	.33	d.36	.54	.21	.72
2003	.30	.20	.50	.25	1.25
2004	.30	.25	.40	.25	1.20

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.235	.235	.235	.235	.94
2000	.235	.235	.235	.235	.94
2001	.235	.235	.235	.235	.94
2002	.235	.235	.235	.235	.94
2003	.235	.235			

BUSINESS: DPL Inc., parent of The Dayton Power & Light Company, sells electricity in Dayton and west-central Ohio. Electricity revenue breakdown in 2002: resid'l, 39%; comm'l, 22%; indus'l, 19%; wholesale, 11%; other, 9%. Power costs: [illegible] of rev.; labor costs, [illegible]. '02 rep'd depr. rate: 3.3%. Fuels: [illegible]. Sold gas distribution business 10/00. Has about [illegible] empls., [illegible] comm. stockholders. Off./dir. own 2.9% of common stock; Dayton Ventures LLC (through Kohlberg Kravis Roberts LP) owns 6.6 mill. Series B voting preferred shares and warrants, to own 24.9% of common stock (3/03 proxy). Chrmn.: Peter H. Forster. [illegible] Inc.: OH. Addr.: Courthouse Plaza SW, Dayton, OH [illegible]. Tel.: 937-224-6000. Internet: www.dplinc.com.

DPL is performing in [illegible] [illegible] 2003, but industrial demand declined [illegible] the continued slump in the wholesale market and the low price for merchant energy. In 2003, DPL will also be facing higher pension costs, as well as anticipated higher power plant maintenance and purchased power costs. Some of these costs will be offset by recognition of income from a self-insurance policy.

The company will likely receive a favorable ruling this summer by the Ohio Public Utility Commission granting DPL's request to extend the transition plan to market development. A settlement with key parties was reached in late May. The accord provides for a two-year delay (to 2005) of market development and a distribution rate freeze to 2008.

And DPL's bottom line [illegible] [illegible] through broad diversification [illegible] since it was started in [illegible], cumulative losses of $32[illegible] million are approaching cumulative gains ($439 million). And 83% of the investments are private securities in passive limited partnerships that may not be readily saleable.

. . . and the company's corporate governance is being scrutinized. A number of issues are attracting attention, including the lack of adequate disclosure regarding the investment portfolio, the high turnover of CFO/Treasurers (six in the past five years), and several recent board resignations.

The stock is untimely, though the dividend yield remains above-average.

Terese S. Fabian *July 4, 2003*

(A) Basic shrs. till 1996, diluted thereafter. Excl. nonrecurr. gain (loss): '87, (44¢); '00, 33¢. '01, (5¢), '03 Q1, 14¢. Next earnings report late July. (B) Div'd payment dates: early March, June, Sept., Dec. ■ Div'd reinvest. plan avail. (C) Incl. 7.4 mill. shs. held by empl. plans. (D) Incl. intang. 12/31/02: $126.5 mill, $2.07/sh. (E) In mill., adj'd for splits. (F) Rate base: net original cost. Rate allowed on comm. eq. '91, 13.0%; earned avg comm. equity, '02: 10.5%. Reg. Climate: Above Avg. (G) Quart. emgs. do not sum due to change in share count.

Company's Financial Strength	B+
Stock's Price Stability	90
Price Growth Persistence	40
Earnings Predictability	55

Item 3, page 8

DTE ENERGY CO. NYSE-DTE

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
39.50	13.9	(Trailing: 12.2 Median: 11.0)	0.83	5.2%	706

TIMELINESS 4 Lowered 5/16/03
SAFETY 3 Lowered 10/5/01
TECHNICAL 3 Lowered 2/7/03
BETA .60 (1.00 = Market)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
High:	35.3	37.1	30.3	34.9	37.3	34.8	49.3	44.7	41.3	47.1	47.7	49.5
Low:	30.3	29.9	24.3	25.8	27.6	26.1	33.4	31.1	28.4	33.1	33.1	38.5

Target Price Range 2006 2007 [illegible]

LEGENDS
— 1.01 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area indicates recession

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+65%)	16%
Low	45	(+15%)	8%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	1	6	1	0	0	0
to Sell	0	0	0	2	[illegible]	[illegible]	[illegible]	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	149	155	163
to Sell	106	112	123
Hld's(000)	88362	91417	84564

Percent shares traded 15 10 5

% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	-2.7	-4.1
3 yr.	42.5	12.0
5 yr.	38.4	23.8

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
19.47	21.13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	24.29	25.95	[illegible]	[illegible]	[illegible]	32.80	39.24	48.71	40.30	43.60	45.15	Revenues per sh	[illegible]
[illegible]	4.84	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.52	7.07	[illegible]	[illegible]	[illegible]	[illegible]	8.59	[illegible]	8.31	7.55	8.50	"Cash Flow" per sh	[illegible]
[illegible]	2.42	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.02	[illegible]	[illegible]	[illegible]	[illegible]	3.27	[illegible]	3.83	2.85	3.60	Earnings per sh [A]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.06	[illegible]	[illegible]	[illegible]	[illegible]	2.06	[illegible]	2.06	2.06	2.06	Div'd Decl'd per sh [B] ■	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.13	[illegible]	[illegible]	[illegible]	[illegible]	5.25	[illegible]	[illegible]	5.65	4.70	Cap'l Spending per sh	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Book Value per sh [C]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	145.12	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Common Shs Outst'g [D]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			Relative P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			Avg Ann'l Div'd Yield	[illegible]
					[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6749.0	[illegible]	[illegible]	Revenues ($mill)	[illegible]
					[illegible]	[illegible]	[illegible]	405.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	632.0	[illegible]	[illegible]	Net Profit ($mill)	[illegible]
					[illegible]	[illegible]	38.9%	[illegible]	[illegible]	37.5%	[illegible]	[illegible]	[illegible]	[illegible]	NMF	[illegible]	[illegible]	Income Tax Rate	[illegible]
					[illegible]	2.4%	2.7%	[illegible]	[illegible]	.5%	[illegible]	[illegible]	.6%	[illegible]	[illegible]	5.0%	4.0%	AFUDC % to Net Profit	[illegible]
					[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	50.3%	[illegible]	63.0%	62.5%	[illegible]	Long-Term Debt Ratio	[illegible]
					[illegible]	[illegible]	[illegible]	[illegible]	46.0%	[illegible]	[illegible]	[illegible]	49.7%	[illegible]	37.0%	37.5%	[illegible]	Common Equity Ratio	[illegible]
					[illegible]	7648.3	[illegible]	[illegible]	7483.3	7620.0	[illegible]	[illegible]	8077.0	12517	12350	12700	[illegible]	Total Capital ($mill)	[illegible]
					[illegible]	8989.5	8913.9	8801.1	8760.9	[illegible]	[illegible]	[illegible]	7387.0	9543.0	9813.0	9875	[illegible]	Net Plant ($mill)	[illegible]
						8.9%	7.3%	7.9%	7.5%	7.4%	7.4%	7.9%	7.5%	4.4%	7.3%	6.0%	6.5%	Return on Total Cap'l	[illegible]
						14.2%	11.3%	12.4%	11.8%	11.6%	12.1%	12.4%	11.7%	7.2%	13.8%	10.0%	12.0%	Return on Shr. Equity	[illegible]
						14.9%	11.7%	12.7%	11.8%	11.7%	12.0%	[illegible]	11.7%	7.2%	13.8%	10.0%	12.0%	Return on Com Equity [E]	[illegible]
						5.8%	2.7%	4.1%	3.1%	3.3%	3.9%	4.7%	4.3%	.1%	6.4%	3.0%	5.0%	Retained to Com Eq	[illegible]
						63%	79%	70%	75%	72%	68%	62%	63%	99%	53%	72%	57%	All Div'ds to Net Prof	[illegible]

CAPITAL STRUCTURE [illegible]
Total Debt $[illegible] [illegible]
LT Debt $7720.0 [illegible]
Incl. $81.0 mill. [illegible] $271.0 mill.
Mandatorily [illegible] Securities, $189.0 equity [illegible] $[illegible] bill. securitized bonds. [illegible]
(LT interest earned: [illegible])
Leases, Uncapitalized Annual rentals $40.0 mill.
Pension Assets-12/02 $1.85 bill. Oblig. $2.50 bill.
Pfd Stock None
Common Stock 167,974,053 shs.
as of 4/30/03
MARKET CAP: $6.6 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+1.1	-4.1	+.7
Avg. Indust. Use (MWH)	16090	14429	13589
Avg. Indust. Revs. per KWH (¢)	5.27	5.56	5.15
Capacity at Peak (Mw)	11053	11053	11080
Peak Load, Summer (Mw)	10919	11860	11308
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+1.6	+.7	+.5
Fixed Charge Cov. (%)	245	148	193

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	6.0%	11.0%	3.0%
"Cash Flow"	2.0%	2.0%	4.0%
Earnings	[illegible]	[illegible]	[illegible]
Dividends	[illegible]	[illegible]	[illegible]
Book Value	[illegible]	[illegible]	[illegible]

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2001	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2002	1896	[illegible]	[illegible]	[illegible]	[illegible]
2003	2095	[illegible]	1700	1975	7350
2004	2150	1675	1750	2075	7650

Cal-endar	EARNINGS PER SHARE [A] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.81	.76	.73	.97	3.27
2001	.95	d.60	.38	1.34	2.15
2002	1.24	.42	.96	1.21	3.83
2003	.64	.40	.61	1.20	2.85
2004	1.25	.45	.65	1.25	3.60

Cal-endar	QUARTERLY DIVIDENDS PAID [B] ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.515	.515	.515	.515	2.06
2000	.515	.515	.515	.515	2.06
2001	.515	.515	.515	.515	2.06
2002	.515	.515	.515	.515	2.06
2003	.515	.515			

BUSINESS: DTE Energy Company is a holding company for The Detroit Edison Company, which supplies electricity in Detroit and a 7,600-square-mile area in southeastern Michigan, and Michigan Consolidated Gas (MichCon). Customers: 2.1 mill. electric, 1.3 mill. gas. Acq'd MCN Energy 6/01. Has various nonutility ops. Owns 82% of Plug Power. Electric rev. breakdown, '02: residential, 35%; comm'l, 37%; ind'l, 17%; other, 11%. Generating sources, '02: coal, 64%; nuclear, 16%; other 3%; purchased, 17%. Fuel costs: 31% of revs. '02 reported deprec. rates: 3.4% elec., 3.6% gas. Has 11,100 employees, 109,000 com. stockholders. Chairman, Pres., & CEO: Anthony F. Earley, Jr. Inc.: MI. Address: 2000 Second Ave., Detroit, MI 48226-1279. Tel.: 313-235-4000. Internet: www.dteenergy.com.

We have cut our earnings estimates for DTE Energy. March-quarter profits were well below our expectations, due in part to a $0.10-a-share reserve for possibly uncollectible gas costs and two small, unusual charges that took $0.14 off the bottom line. We include these three items in our presentation. DTE's goal of $3.76-$3.95 a share excludes them, though that figure was set before a problem with the company's tax-driven synfuels operation arose. DTE hasn't received the private-letter ruling from the IRS that it needs before it can sell some projects, as was its intent all along. It will curtail production at the facilities, which will reduce earnings by $0.05-$0.07 a share each month. The synfuels problem certainly makes earnings much tougher to estimate than usual. We have slashed our 2003 share-net estimate from $3.95 to $2.85, and our 2004 figure is now $3.60, down from $4.15 previously.

Detroit Edison has filed a rate case. The utility's last base rate increase was 10 years ago. Certain costs, such as those for pensions and healthcare, are up sharply. Detroit Edison seeks a rate hike of $416 million (8%) based on an 11.5% return on equity; a $109 million, five-year surcharge to recover regulatory assets, including costs associated with customer choice in the state and environmental capital expenditures; a $274 interim rate hike that would take effect at the start of 2004; and restoration of a fuel adjustment mechanism. The final order is due in the first half of 2004. Any rate changes would take effect for small commercial/industrial customers and residential customers only after rate caps for these users expire at the end of 2004 and 2005, respectively.

MichCon Gas will also file a rate request, probably by the end of the third quarter. Because MichCon is earning only a single-digit return on equity, it appears to have a strong case for an increase.

Untimely DTE stock has lagged most utility issues lately. As a result, its yield is now about a percentage point above the industry average. That ought to provide reasonable compensation for investors to assume the risks associated with the synfuels business and the utilities' rate cases. Total-return potential to 2006-2008 is above average for the industry.

Paul E. Debbas, CFA *July 4, 2003*

(A) Diluted EPS. Excl. nonrecurring gains (losses): '95, (22¢); '96, (67¢); '01, 2¢; '03, [illegible] gain on disc. ops.: '03, 44¢. '01 EPS don't add due to change in shares. Next earnings report due late July. (B) Dividends historically paid in mid-Jan., April, July, and Oct. ■ Div'd reinvestment plan available. (C) Incl. intangibles. In '02: $4.9 bill., $29.43/sh. (D) In mill. (E) Rate base: Net orig. cost. Rate allowed on com. eq. (elec.): none specified; gas: 11.6%; earned on avg. com. eq., '02: 13.2%. Regulatory Climate: Below Average

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	30
Earnings Predictability	55

Item 3, page 9

EMPIRE DISTRICT NYSE-EDE

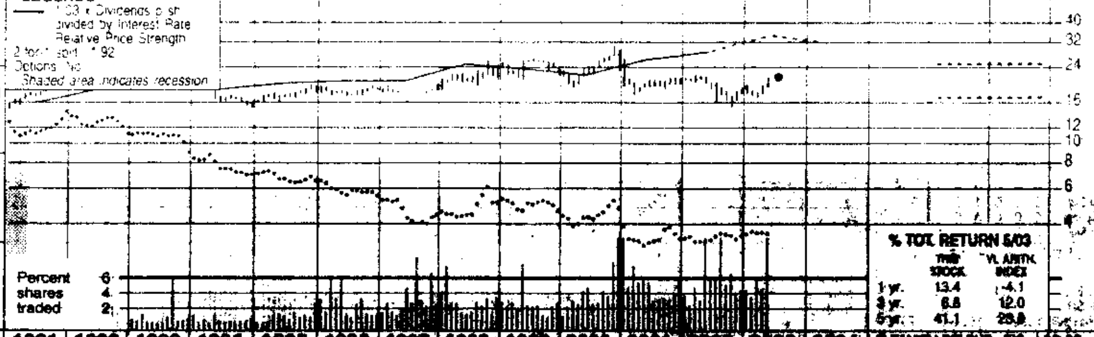
RECENT PRICE	21.50	P/E RATIO	13.4 (Trailing: 14.9; Median: 16.0)	RELATIVE P/E RATIO	0.80	DIV'D YLD	6.0%	VALUE LINE	707

TIMELINESS 3 Raised 3/8/02
SAFETY 3 Lowered 10/4/02
TECHNICAL 3 Lowered 2/[illegible]/03
BETA .60 (1.00 = Market)

High	24.8	24.8	20.5	19.8	19.5	[illegible]	26.1	26.8	30.8	26.6	22.0	22.2
Low	20.1	19.1	15.0	16.0	17.1	[illegible]	18.4	20.7	18.9	17.5	15.1	17.0

Target Price Range 2006 | 2007 | 2008

LEGENDS
— 1.03 x Dividends p sh divided by Interest Rate
··· Relative Price Strength
2-for-1 split 1/92
Options: No
Shaded area indicates recession



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	25	(+15%)	8%
Low	17	(-20%)	Nil

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	1	0	0	0	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	36	28	29
to Sell	19	23	27
Hld's(000)	7064	6848	6320

Percent shares traded 6 4 2

% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	13.4	-4.1
3 yr.	6.8	12.0
5 yr.	41.1	29.8

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
13.59	13.62	11.52	11.18	11.58	11.31	12.41	12.75	12.87	12.63	12.83	14.02	13.94	14.28	13.37	[illegible]	[illegible]	[illegible]	Revenues per sh	[illegible]
2.61	2.61	2.63	2.36	2.68	2.55	2.49	2.62	2.50	2.67	2.87	2.97	2.80	3.12	2.10	2.45	[illegible]	[illegible]	"Cash Flow" per sh	[illegible]
1.46	1.53	1.47	1.28	1.43	1.26	1.16	1.32	1.18	1.23	1.29	1.33	1.13	1.35	.59	1.19	[illegible]	[illegible]	Earnings per sh	[illegible]
1.02	1.08	1.13	1.16	1.22	1.26	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	[illegible]	[illegible]	Div'ds Decl'd per sh	[illegible]
2.82	3.05	3.51	3.60	1.79	2.36	3.27	5.14	2.34	3.79	3.38	3.03	4.14	3.61	4.02	3.43	[illegible]	[illegible]	Cap'l Spending per sh	[illegible]
10.22	10.75	11.17	11.76	12.08	12.29	12.87	12.47	12.60	12.96	13.08	13.43	12.46	12.65	13.58	14.50	[illegible]	[illegible]	Book Value per sh	[illegible]
11.05	11.29	11.58	12.67	12.99	13.29	13.57	13.94	15.22	16.44	16.78	17.11	17.87	17.80	19.70	22.57	[illegible]	[illegible]	Common Shs Outst'g	[illegible]
10.1	9.7	9.9	11.6	12.8	18.0	19.6	13.3	14.9	14.8	13.9	14.0	21.7	17.7	33.0	16.2	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	[illegible]
.68	.81	.75	.86	.82	1.09	1.16	.87	1.00	.93	.80	.73	1.24	1.15	1.74	.88			Relative P/E Ratio	[illegible]
6.8%	7.2%	7.7%	7.9%	6.7%	5.6%	5.6%	7.3%	7.3%	7.0%	7.1%	6.0%	6.2%	5.4%	6.4%	6.8%			Avg Ann'l Div'd Yield	6.0%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $444.2 mill. Due in 5 Yrs $143.2 mill.
LT Debt $411.5 mill. LT Interest $31.2 mill.
Incl. $50 mill. 8.5% trust preferred securities.
(LT interest earned: 2.6x)
Pension Assets-12/02 $78.2 mill. Oblig. $87.5 mill.

Pfd Stock None

Common Stock 22,705,791 shs. as of 5/1/03

MARKET CAP: $490 million (Small Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
168.4	177.8	192.8	205.0	215.3	239.9	242.2	260.0	264.3	305.9	325	330	Revenues ($mill)	[illegible]
15.9	19.7	18.8	22.0	23.8	28.3	22.2	23.6	10.4	25.5	[illegible]	[illegible]	Net Profit ($mill)	[illegible]
32.4%	36.2%	36.5%	34.8%	50.8%	36.4%	41.9%	32.7%	32.7%	34.9%	[illegible]	[illegible]	Income Tax Rate	[illegible]
1.4%	18.7%	11.3%	6.4%	5.1%	2.3%	5.4%	26.5%	34.7%	2.2%	3.0%	3.0%	AFUDC % to Net Profit	2.0%
48.5%	47.2%	48.3%	47.2%	43.8%	48.4%	59.6%	57.6%	57.2%	56.5%	[illegible]	[illegible]	Long-Term Debt Ratio	[illegible]
49.2%	44.4%	45.9%	45.8%	48.9%	45.2%	40.4%	42.4%	42.8%	44.5%	[illegible]	47.5%	Common Equity Ratio	[illegible]
341.0	391.7	420.7	465.5	448.3	508.5	580.0	566.8	626.9	740.3	[illegible]	[illegible]	Total Capital ($mill)	[illegible]
393.6	445.8	475.7	515.2	547.0	572.2	616.0	720.3	750.5	794.1	[illegible]	[illegible]	Net Plant ($mill)	[illegible]
6.6%	6.7%	6.5%	6.3%	7.2%	7.3%	5.5%	6.5%	4.0%	5.4%	7.0%	7.0%	Return on Total Cap'l	7.5%
9.1%	9.5%	8.8%	9.0%	9.4%	10.8%	9.5%	9.8%	3.9%	7.8%	10.5%	10.5%	Return on Shr. Equity	11.0%
9.3%	10.4%	9.0%	9.2%	9.8%	11.3%	8.8%	9.8%	3.9%	7.8%	10.5%	10.5%	Return on Com Equity E	11.0%
NMF	.4%	NMF	NMF	.1%	1.8%	NMF	.5%	NMF	NMF	2.0%	2.0%	Retained to Com Eq	3.5%
110%	96%	108%	104%	99%	85%	107%	95%	NMF	109%	81%	80%	All Div'ds to Net Prof	68%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+6.5	+1.3	+1.6
Avg. Industrial Use (MWH)	2942	2982	2944
Avg. Industrial Revs. per KWH (¢)	4.20	4.36	4.55
Capacity at Peak (Mw)	1165	1169	1166
Peak Load, Summer (Mw)	993	1001	987
Annual Load Factor (%)	55.1	54.8	56.9
% Change Customers (avg.)	+1.6	+1.7	+1.8
Fixed Charge Cov. (%)	204	137	222

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	2.0%	2.0%	[illegible]
"Cash Flow"	[illegible]	-.5%	[illegible]
Earnings	-2.5%	-3.5%	16.5%
Dividends	.5%	--	Nil
Book Value	1.5%	4.6%	3.5%

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	54.0	57.5	86.2	62.3	260.0
2001	60.8	58.4	83.3	62.8	264.3
2002	65.3	68.9	99.8	71.9	305.9
2003	76.9	73.1	100	75.0	325
2004	78.0	75.0	106	80.0	330

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.14	.21	.82	.18	1.35
2001	.13	.04	.42	.01	.59
2002	d.03	.19	.82	.16	1.19
2003	.27	.25	.85	.23	1.60
2004	.20	.27	.88	.25	1.60

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.32	.32	.32	.32	1.28
2000	.32	.32	.32	.32	1.28
2001	.32	.32	.32	.32	1.28
2002	.32	.32	.32	.32	1.28
2003	.32	.32			

BUSINESS: The Empire District Electric Company supplies electricity (97% of revenues) to 154,000 customers in a 10,000 sq. mi. area in Missouri (88% of '02 retail-electric revs.), Kansas (6%), Oklahoma (3%), & Arkansas (3%). Supplies water service (less than 1%). Has various nonregulated ops. (3%). Electric rev. breakdown: '02: resid., 41%; comm'l, 29%; ind'l, 18%; other, 14%. Service area is mainly rural. Generating sources, '02: coal, 38%; oil & gas, 17%; hydro, 1%; purchased, 44%. Fuel costs: 37% of revs. '02 reported [illegible] rate: [illegible]. Has about 600 employees, 26,000 shareholders. Chairman: [illegible]. [illegible] McKinney, President & CEO: [illegible]. [illegible] P.O. Box 127, Joplin, MO [illegible]. Tel.: [illegible]. Internet: www.empiredistrict.com.

[illegible] sion took effect on May 1st. And EDE has requested a rate increase of slightly under $1 million (13%) from the Oklahoma Corporation Commission. An order is expected in early September. EDE stock is ranked 3 (Average) for Timeliness.

The company is evaluating the need for additional rate relief in Missouri and Kansas. It completed the addition of 50 megawatts of peaking capacity in the second quarter. Also, certain expenses are rising, such as natural gas costs, although EDE has hedged 79% and 60% of its expected gas usage in 2003 and 2004, respectively. (There is no fuel adjustment clause in Missouri.) Due to rate moratoriums, however, the utility may not file a rate ap- [illegible] Kansas in [illegible] 2004 forecasts so there is some upside to our estimate if EDE winds up filing a case.

This stock's primary attraction is its lofty dividend yield. At the current quotation, it is about two percentage points above the industry average. The fact that EDE is likely to cover the dividend this year enhances the security of the payout. On the down side, although we expect decent earnings growth to 2006-2008, we project no dividend increase over that time. Thus, this equity's 3- to 5-year total return potential is below the industry average.

Paul E. Debbas, CFA *July 4, 2003*

(A) Excl. accounting gain: '90, 28¢. '00, '01 EPS don't add due to rounding; '02 due to change in shares outstanding. Next earnings report due late July. (B) Dividends historically paid in mid-March, June, Sept., and Dec. ■ Div'd reinvestment plan available (3% discount). (C) Incl. deferred charges. In '02: $42.5 mill., $1.88/sh. (D) In mill., adj. for stock split. (E) Rate base: Deprec. original cost. Rate allowed on com. eq. in '02 (MO): none specified; earned on avg. com. eq., '02: 7.8%. Regulatory Climate: Average.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	25
Earnings Predictability	50

Item 3, page 10

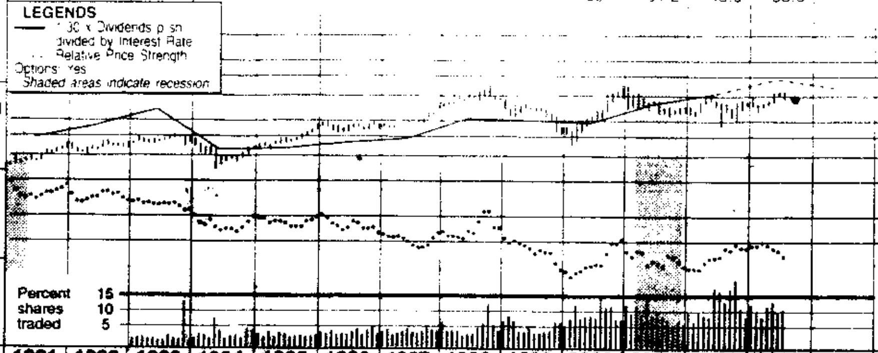
FPL GROUP, INC. NYSE-FPL

RECENT PRICE 62.00 | P/E RATIO 12.6 (Trailing: 15.9 Median: 13.0) | RELATIVE P/E RATIO 0.72 | DIV'D YLD 4.0% | VALUE LINE 165

TIMELINESS 4 Lowered 8/1/03
SAFETY 1 Raised 3/6/02
TECHNICAL 3 Lowered 2/7/03
BETA .60 (1.00 = Market)

High	38.4	41.0	39.1	46.5	48.1	[illegible]	72.6	61.3	73.0	71.6	65.3	68.1
Low	32.0	35.5	27.4	34.1	41.5	[illegible]	56.1	41.1	36.4	51.2	45.0	53.6

Target Price Range 2006 2007 2008



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	85	(+35%)	11%
Low	70	(+15%)	7%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	1	1	1	0	0
Options	0	0	0	0	0	0	0	0	1
to Sell	0	0	0	0	0	0	0	0	1

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	242	261	241
to Sell	160	169	183
Hld's(000)	116161	114582	114919

% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr	13.2	25.8
3 yr	43.6	18.7
5 yr.	23.1	40.9

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
34.14	44.64	46.35	39.05	30.74	28.41	27.97	29.07	30.28	33.02	35.03	36.86	36.06	40.29	48.19	45.48	*50.40*	*52.10*	Revenues per sh A	*52.00*
6.93	7.78	8.76	6.08	5.56	5.59	5.85	6.45	7.97	8.42	9.23	10.78	9.73	9.88	10.03	9.01	*9.35*	*9.70*	"Cash Flow" per sh	*10.80*
3.10	3.10	3.12	2.65	2.65	2.65	2.75	2.91	3.16	3.33	3.57	3.85	4.07	4.14	4.62	4.02	*4.90*	*5.10*	Earnings per sh A B	*5.70*
2.10	2.18	2.26	2.34	2.39	2.43	2.47	1.88	1.76	1.84	1.92	2.00	2.08	2.16	2.24	2.32	*2.40*	*2.48*	Div'ds Decl'd per sh C■	*2.72*
5.41	5.11	6.44	6.45	7.01	6.95	6.56	4.07	3.63	2.67	3.03	3.41	4.82	7.39	6.56	6.87	*7.15*	*7.55*	Cap'l Spending per sh	*4.40*
23.82	24.90	25.89	19.63	19.64	20.99	21.57	22.50	23.78	25.12	26.65	28.37	30.07	31.82	34.20	34.96	*38.25*	*41.05*	Book Value per sh D	*52.20*
130.03	131.12	133.34	161.07	170.76	182.79	190.07	186.57	184.69	182.82	181.82	180.71	178.55	175.77	175.85	182.76	*190.40*	*192.00*	Common Shs Outst'g F	*215.40*
10.0	9.8	10.2	11.5	12.0	13.3	13.9	11.3	12.3	13.5	13.5	16.2	13.0	12.8	12.5	14.2	*Bold figures are*		Avg Ann'l P/E Ratio	*13.5*
.67	.81	.77	.85	.77	.81	.82	.74	.82	.85	.78	.84	.74	.83	.64	.77	*Value Line*		Relative P/E Ratio	*.90*
6.8%	7.2%	7.1%	7.7%	7.5%	6.9%	6.4%	5.7%	4.5%	4.1%	4.0%	3.2%	3.9%	4.1%	3.9%	4.1%	*estimates*		Avg Ann'l Div'd Yield	*3.5%*

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
5316.3	5422.7	5592.5	6036.8	6369.0	6661.0	6438.0	7082.0	8475.0	8311.0	*9600*	*10000*	Revenues ($mill)	*11200*
556.4	518.7	596.7	603.2	637.0	679.0	712.0	719.0	796.0	710.0	*935*	*990*	Net Profit ($mill)	*1240*
35.3%	37.2%	35.5%	32.8%	32.3%	29.1%	31.2%	31.8%	32.3%	25.6%	*26.0%*	*26.0%*	Income Tax Rate	*26.0%*
11.9%	4.6%	2.5%	--	--	--	--	--	--	4.0%	*4.0%*	*4.0%*	AFUDC % to Net Profit	*3.0%*
46.4%	46.1%	41.6%	39.0%	36.8%	30.5%	38.3%	40.6%	43.8%	46.7%	*47.5%*	*47.5%*	Long-Term Debt Ratio	*40.5%*
47.3%	47.7%	54.2%	56.9%	60.4%	66.6%	59.2%	57.1%	54.2%	51.5%	*51.0%*	*51.0%*	Common Equity Ratio	*58.5%*
8669.3	8792.6	8108.7	8068.0	8020.0	7699.0	9074.0	9795.0	11099	12406	*14295*	*15395*	Total Capital ($mill)	*19260*
10289	10203	9652.0	9383.9	9354.0	8555.0	9264.0	9934.0	11682	14304	*14815*	*15375*	Net Plant ($mill)	*15400*
8.1%	7.4%	9.0%	9.0%	9.5%	10.0%	9.0%	8.6%	8.5%	6.6%	*8.0%*	*7.5%*	Return on Total Cap'l	*7.5%*
12.0%	10.9%	12.6%	12.3%	12.6%	12.7%	12.7%	12.4%	12.8%	10.7%	*12.5%*	*12.0%*	Return on Shr. Equity	*11.0%*
12.5%	11.4%	12.6%	12.6%	12.8%	13.0%	13.0%	12.6%	13.0%	10.9%	*12.5%*	*12.5%*	Return on Com Equity E	*11.0%*
1.3%	3.4%	5.6%	5.6%	5.9%	6.2%	6.6%	6.3%	7.0%	4.6%	*6.5%*	*6.5%*	Retained to Com Eq	*5.5%*
91%	72%	58%	57%	55%	53%	50%	51%	47%	58%	*50%*	*49%*	All Div'ds to Net Prof	*49%*

CAPITAL STRUCTURE as of 6/30/03
Total Debt $8836 mill. **Due in 5 Yrs** $4656 mill.
LT Debt $6765 mill. **LT Interest** $227 mill.
(LT interest earned: 4.1x)
Leases Uncapitalized None

Pension Assets-12/02 $2.4 bill. **Oblig.** $1.4 bill.
Pfd Stock $226 mill. Pfd Div'd $15 mill.
2,262,500 shs. 4.32% to 7.40%, all $100 par, cum., and callable from 101 to 103.52 per sh. Sinking fund began 4/1/80.
Common Stock 183,632,677 shs. as of 7/31/03
MARKET CAP: $11.4 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+5.0	+4.9	+5.5
Avg. Indust. Use (MWH)	1938	1467	1126
Avg. Indust. Revs. per KWH (¢)	4.89	4.95	5.25
Capacity at Peak (Mw)	19069	18871	20938
Peak Load, Summer (Mw)	17808	18754	19219
Annual Load Factor (%)	63	63	62
% Change Customers (yr-end)	+2.3	+2.3	+2.4
Fixed Charge Cov. (%)	403	395	346

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	3.0%	6.5%	2.5%
"Cash Flow"	5.5%	2.6%	2.0%
Earnings	5.0%	5.0%	5.0%
Dividends	-.5%	4.0%	3.5%
Book Value	5.5%	6.0%	7.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	1468	1670	2087	1857	7082
2001	1941	2166	2529	1839	8475
2002	1771	2128	2353	2059	8311
2003	2173	2459	*2650*	*2318*	*9600*
2004	*2275*	*2560*	*2750*	*2415*	*10000*

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.72	1.20	1.84	.38	4.14
2001	.64	1.30	1.98	.70	4.62
2002	.98	1.46	.85	.73	4.02
2003	.99	1.34	*1.80*	*.77*	*4.90*
2004	*1.00*	*1.45*	*1.85*	*.80*	*5.10*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.52	.52	.52	.52	2.08
2000	.54	.54	.54	.54	2.16
2001	.56	.56	.56	.56	2.24
2002	.58	.58	.58	.58	2.32
2003	.60	.60			

BUSINESS: FPL Group, Inc. owns 100% of Florida Power & Light, which supplies electricity in a 27,650-square-mile area in eastern and southern Florida with a population of nearly eight million. Utility revenue breakdown in 2002: residential, 55%; commercial, 36%; industrial, 3%; other, 6%. Energy Mix: oil, 18%; gas, 32%; nuclear, 24%; purchased power, [illegible]%; coal, 6%. Fuel costs: 45% of revenues. 2002 depreciation rate: 4.4%. Sold Colonial Penn Group 8/91. Nonutility operations accounted for about 11% of total 2002 revenues. Has 11,577 employees, 37,283 shareholders. Chairman & Chief Executive Officer: Lewis Hay. Incorporated: Florida. Address: 700 Universe Boulevard, Juno Beach, FL 33408. Tel.: 561-694-4697. Internet: www.investor.fplgroup.com.

FPL Group's [illegible] energy subsidiary, [illegible] [illegible] nuclear, [illegible] 700-megawatt (mw) portfolio of wind power, mainly in the Midwest and on the Pacific Coast, makes it the largest owner of this clean electricity source in the [illegible]. Current plans call for completion of [illegible] 335 mw of wind generation by the end of 2003. Though the cost of this energy is higher than that of fossil fuel, the difference is largely offset by federal tax credits and economies of scale. The company's entire wind-powered output has been sold under long-term contracts. FPL Energy has also leased a 535-mw gas-fired [illegible] in Rhode Island and bought 88% of the Seabrook 1 nuclear plant. By yearend, it expects to add 2,800 mw to its current capacity of 7,200 mw. All of this power will be sold in the wholesale market, free of commission oversight.

The regulated utility also continues to grow. To cover rising customer demand in one of the country's fastest-growing areas, this subsidiary built a 543-mw peaking energy facility in Fort Myers last year and recently [illegible] capacity of its Sanford oil-and-gas station from 772 mw to 1,914 mw. [illegible] 1,900 mw [illegible] units in two Florida counties by [illegible]. The utility [illegible] solicited outside bids for construction of these plants, but will build them itself, since it can do so less expensively. Additional power will be added as the need arises.

We look for improved earnings in 2003. Though June-quarter results were hurt by mild weather, a full year of Seabrook 1's operation, additional wind capacity, and new regulated units on line point to solid returns for the full year. Thus, despite an increase in long-term debt and the issuance of common shares to cover the cost of new plants, we estimate 2003 earnings will rise by 22%, to $4.90 a share. Continued gains in customer demand suggest a further advance next year. For now, the stock is untimely.

Dividend growth prospects exceed those of the group. Moreover, the company is financially strong. But the stock's recent price largely reflects these positives, so total returns to 2006-2008 are only about average for a utility.

Arthur H. Medalie — *September [illegible], 2003*

(A) [illegible] Colonial Penn '87-'90. (B) Based on avg. shares. Excl. nonrec. (losses) gains: '88, 32¢; '90, ($5.50); '91, ($1.10); '93, (46¢); '99, 31¢; '02, ($1.28). Next egs. [illegible] late Oct. (C) Div'ds historically paid [illegible] June, mid-Sept., and [illegible]. ■ Div'd reinvestment plan avail. (D) Incl. deferred items in '02: $5.25/sh. (E) Rate allowed on com. equity in '98: 10.0%-12.0%; earned on '02 avg. com. eq.: 11.2%. Reg.: Above Avg. (F) In millions.

Company's Financial Strength A+
Stock's Price Stability 95
Price Growth Persistence 60
Earnings Predictability 85

Item 3, page 11

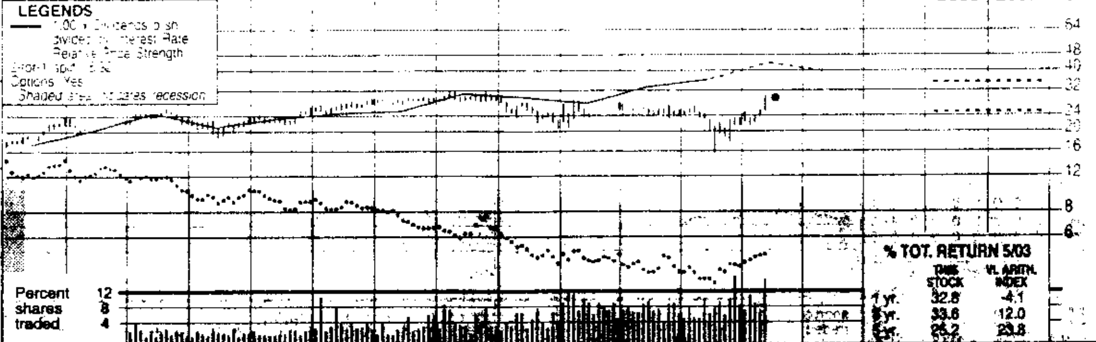
GREAT PLAINS EN'GY NYSE-GXP

RECENT PRICE 29.42 | P/E RATIO 14.7 (Trailing: 12.4, Median: 15.0) | RELATIVE P/E RATIO 0.88 | DIV'D YLD 5.6% | VALUE LINE 709

TIMELINESS 3 Lowered 4.4.03
SAFETY 2 Raised 7.16.93
TECHNICAL 3 Lowered 5.23.03
BETA [illegible] (1.00 = Market)

High:	24.5	26.3	23.9	26.6	29.4	29.9	31.8	29.6	[illegible]	27.6	27.0	30.3
Low:	19.3	21.8	18.6	21.5	23.6	27.4	28.0	20.8	[illegible]	23.2	15.7	21.4

Target Price Range 2006 | 2007 | 2008



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+20%)	10%
Low	25	(-15%)	2%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	4	3	0	2	0	0	0	0	1
Options	0	0	0	0	0	0	0	0	0
to Sell	1	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	76	99	98
to Sell	54	51	61
Hld's(000)	16105	21047	21776

Percent shares traded: 12, 8, 4

% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	32.8	-4.1
3 yr.	33.6	12.0
5 yr.	25.2	23.8

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
11.39	11.90	11.82	12.29	13.33	12.97	13.85	14.03	14.31	14.60	14.47	[illegible]	14.50	18.02	22.81	26.91	31.80	34.70	Revenues per sh	43.25
2.80	3.15	3.43	3.49	3.46	3.36	3.73	3.69	4.06	3.90	3.91	4.21	3.69	4.63	4.70	4.40	4.60	4.70	"Cash Flow" per sh	5.35
1.51	1.60	1.66	1.66	1.58	1.35	1.66	1.64	1.92	1.69	1.60	1.66	1.26	2.05	1.59	2.04	2.00	2.10	Earnings per sh A	2.50
1.06	1.17	1.25	1.31	1.37	1.43	1.46	1.50	1.54	1.59	1.62	1.64	1.66	1.66	1.66	1.66	1.66	1.66	Div'd Decl'd per sh B■	1.66
1.27	1.53	1.67	1.50	1.98	2.09	2.09	2.02	2.20	1.66	2.05	1.97	2.97	6.67	4.36	1.91	2.45	2.55	Cap'l Spending per sh	2.50
14.22	13.10	13.50	13.76	13.90	13.79	13.99	14.13	14.50	14.71	14.19	14.41	13.97	14.66	12.59	13.58	14.25	14.79	Book Value per sh C	16.75
61.91	61.91	61.91	61.91	61.91	61.91	61.91	61.91	61.91	61.91	61.91	61.91	61.91	61.91	61.91	69.20	69.20	69.20	Common Shs Outst'g D	69.20
9.1	9.0	9.7	9.7	12.5	16.5	14.5	13.2	12.2	15.9	17.0	16.7	20.0	12.4	15.9	11.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	11.5
.61	.75	.73	.72	.80	1.00	.86	.87	.82	1.00	.98	.82	1.14	.81	.81	.60			Relative P/E Ratio	.75
7.8%	8.1%	7.8%	8.1%	7.0%	6.4%	6.1%	6.9%	6.5%	5.9%	5.6%	5.6%	6.6%	6.5%	6.6%	7.2%			Avg Ann'l Div'd Yield	5.7%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $1385.4 mill. Due in 5 Yrs $805.1 mill.
LT Debt $1124.7 mill. LT Interest $65.3 mill.
Incl. $150 mill. 8.3% mand. redeem. pfd. securities.
Excl. $79.9 mill. accounts receivable sale.
(LT interest earned: 3.7x)
Leases, Uncapitalized Annual rentals $30.4 mill.
Pension Assets-12/02 $324.2 mill. Oblig. $450.8 mill.
Pfd Stock $39.0 mill. Pfd Div'd $1.6 mill.
390,000 shs. 3.80% to 4.50% (all $100 par & cum.), callable from $101 to $103.70 per sh.
Common Stock 69,196,320 shs.
MARKET CAP: $2.0 billion (Mid Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
857.5	868.3	886.0	903.9	895.9	938.9	897.4	1115.9	1461.9	1861.9	2200	2400	Revenues ($mill)	3000
105.8	104.8	122.6	108.2	117.4	[illegible]	94.4	128.6	100.0	129.2	140	150	Net Profit ($mill)	170
39.1%	38.8%	35.3%	22.7%	19.9%	[illegible]	3.3%	29.2%	16.6%	27.2%	33.0%	33.0%	Income Tax Rate	33.0%
5.1%	3.8%	3.5%	4.0%	4.0%	4.7%	6.4%	12.6%	12.8%	1.0%	1.0%	1.0%	AFUDC % to Net Profit	1.0%
43.4%	45.3%	45.8%	48.6%	45.5%	[illegible]	39.4%	55.4%	53.1%	53.5%	55.0%	51.5%	Long-Term Debt Ratio	54.0%
51.2%	49.6%	49.2%	46.8%	42.8%	42.4%	49.7%	42.8%	44.6%	44.7%	43.5%	47.0%	Common Equity Ratio	44.5%
1690.6	1763.8	1824.1	1943.6	2061.5	[illegible]	1739.6	2182.3	1747.4	2102.8	2285	2165	Total Capital ($mill)	2600
2318.3	2336.1	2369.5	2343.5	2323.6	2316.4	2296.9	2527.8	2623.7	2604.1	2595	2590	Net Plant ($mill)	2525
7.7%	7.2%	8.2%	7.0%	7.2%	8.6%	6.9%	7.7%	7.5%	7.7%	7.5%	8.5%	Return on Total Cap'l	8.0%
11.1%	10.9%	12.4%	10.8%	10.5%	11.8%	9.0%	13.4%	12.2%	13.2%	14.0%	14.0%	Return on Shr. Equity	14.0%
11.8%	11.6%	13.2%	11.5%	11.9%	13.1%	9.0%	13.8%	12.6%	13.6%	14.5%	14.5%	Return on Com Equity E	14.5%
1.4%	1.0%	2.6%	.7%	.5%	1.7%	NMF	2.8%	NMF	2.3%	2.5%	3.0%	Retained to Com Eq	4.5%
88%	92%	81%	94%	96%	89%	NMF	81%	104%	83%	82%	79%	All Div'ds to Net Prof	70%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+6.4	-3.3	+1.5
Avg. Indust. Use (MWH)	1146	918	826
Avg. Indust. Revs. per KWH (¢)	4.70	4.88	5.12
Capacity at Peak (Mw)	3450	3904	3909
Peak Load, Summer (Mw)	3374	3352	3335
Annual Load Factor (%)	51.4	50.1	51.2
% Change Customers (avg.)	+1.4	+2.0	+2.5
Fixed Charge Cov. (%)	321	216	312

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	[illegible]	9.5%	10.0%
"Cash Flow"	[illegible]	3.0%	4.5%
Earnings	2.0%	1.5%	5.0%
Dividends	2.0%	[illegible]	NIL
Book Value	[illegible]	-1.0%	3.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	199.3	290.9	[illegible]	297.3	1115.9
2001	280.2	340.5	480.1	360.3	1461.9
2002	358.8	465.4	585.0	452.7	1861.9
2003	476.7	533.3	670	520	2200
2004	475	600	750	575	2400

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	--	.43	1.31	.31	2.05
2001	d.06	.58	.89	.18	1.59
2002	d.05	.57	1.11	.41	2.04
2003	.28	.42	1.05	.25	2.00
2004	.20	.55	1.10	.25	2.10

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.415	.415	.415	.415	1.66
2000	.415	.415	.415	.415	1.66
2001	.415	.415	.415	.415	1.66
2002	.415	.415	.415	.415	1.66
2003	.415	.415			

BUSINESS: Great Plains Energy Incorporated is a holding company for Kansas City Power & Light (KCPL), which supplies electricity to 485,000 customers in western Missouri (57% of revs.) & eastern Kansas (43%). Rev. breakdown, '02: residential, 41%; commercial, 40%; industrial, 18%; other, 1%. Generating sources, '02: coal, 71%; nuclear, 22%; oil & gas, 2%; purchased, 5%. KLT Inc. is a nonreg. subsidiary with interests in independent power production, energy services (89%-owned Strategic Energy), & gas. Fuel costs: 39% of revs. '02 reported depr. rate: 3.0%. Has 3,000 employees, 17,100 com. stockholders. Chairman, President & CEO: Bernard J. Beaudoin. Inc.: MO. Address: 1201 Walnut St., Kansas City, MO 64106-2124. Tel.: 816-556-2200. Internet: www.greatplainsenergy.com.

We have raised our 2003 earnings estimate for Great Plains Energy. [illegible] off to a good start [illegible] in wholesale power [illegible] helped produce [illegible] comparison in the March [illegible] pect unfavorable [illegible] mainder of the year [illegible] cause pension expense will [illegible] lion in 2003, the [illegible] 2003 [illegible] lion common shares will be [illegible] weather patterns were generally favorable for the utility a year ago. Our estimate, which we've boosted by a nickel from our previous forecast, is at the upper end of management's goal of $1.90-$2.00 a share.

We expect a respectable earnings increase in 2004. That's based on a combination of growth at the utility and Great Plains' energy-services subsidiary, Strategic Energy, which serves large power users. Strategic Energy's top line is rising rapidly as it gains market share, as prospective customers increasingly seek to avoid volatility in the power markets. We figure this will outweigh the margin pressures when older contracts are renewed. Great Plains has not stated an earnings target for 2004, but our $2.10-a-share estimate [illegible] growth [illegible] bankruptcy [illegible] Great Plains will receive about [illegible] will record [illegible] finances are [illegible] The fixed-charge coverage is [illegible] Cash flow exceeds the sum of capital spending and dividends, and the capitalization ratios are decent.

This stock offers an attractive yield, but not much else. Its price is up more than 25% so far in 2003—more than the average utility stock. Nevertheless, the yield is still well above average by electric utility standards. That said, the price-earnings ratio is high for a utility equity. Moreover, we expect no dividend growth over that time, since the payout ratio is well above a desirable level. All in all, this issue's total-return potential to 2006-2008 is comparable to that of the average electric utility.

Paul E. Debbas, CFA *July 4, 2003*

(A) Excl. nonrec. gains (losses): '90, (11¢); '97, (52¢); '00, 49¢; '01, ($2.01) net; '02, (5¢); 1Q '03, (8¢); 2Q '03, 37¢. Incl. gains on sale of gas properties: '00, $1.10; '01, 19¢. Next earnings report due late July. (B) Dividends historically paid in mid-Mar., June, Sept., and Dec. ■ Div'd reinvestment plan available. (C) Incl. intangibles. In '02: $4.34/sh. (D) In mill., adj. for split. (E) Rate base: Fair value. Rate allowed on com. eq. in '86: 15.0% (MO); in '87: 12.0% (KS); earned on avg. com. eq., '02, 14.4%. Regulatory Climate: Average.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	15
Earnings Predictability	60

Item 3, page 12

MGE ENERGY INC. NDQ-MGEE

RECENT PRICE	30.75	P/E RATIO	17.1 (Trailing: 19.5; Median: 15.0)	RELATIVE P/E RATIO	1.02	DIV'D YLD	4.4%	VALUE LINE	710

TIMELINESS 5 Lowered 6/20/03
SAFETY 1 New 1/3/03
TECHNICAL 3 Lowered 7/4/03
BETA .55 (1.00 = Market)

High:	23.0	24.5	23.3	23.3	27.5	23.8	23.8	23.9	23.7	27.8	30.1	33.7
Low:	19.0	20.2	20.7	20.3	19.6	18.5	20.6	16.4	16.8	20.9	24.6	25.0

Target Price Range 2006 | 2007 | 2008

2006-08 PROJECTIONS

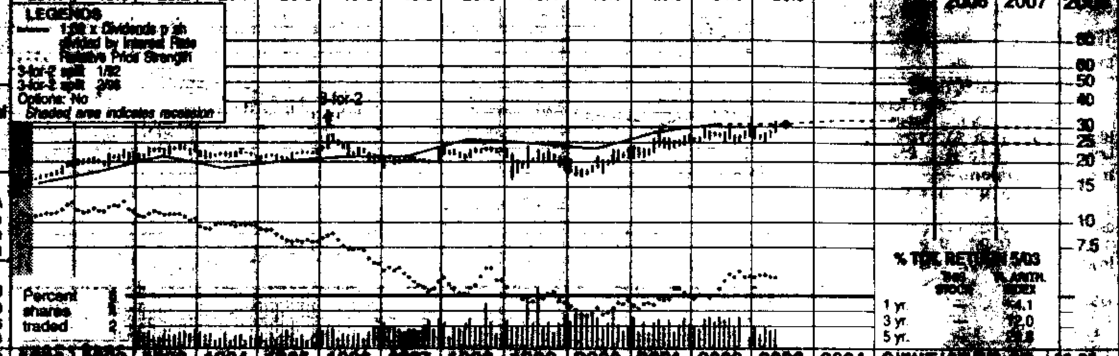
	Price	Gain	Ann'l Total Return
High	30	[illegible]	[illegible]
Low	25	(-20%)	Nil

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	23	31	29
to Sell	29	16	26
Hld's(000)	3755	4118	3830



% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	[illegible]	[illegible]
3 yr.	[illegible]	[illegible]
5 yr.	[illegible]	[illegible]

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
[illegible]	14.02	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	15.53	[illegible]	[illegible]	[illegible]	20.00	22.00	22.30	Revenues per sh	[illegible]
[illegible]	2.91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.37	3.80	3.90	"Cash Flow" per sh	[illegible]
[illegible]	1.32	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.40	[illegible]	[illegible]	1.67	[illegible]	1.69	1.80	2.00	Earnings per sh	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.29	[illegible]	[illegible]	[illegible]	[illegible]	1.34	1.35	1.36	Div'd Decl'd per sh	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.35	[illegible]	[illegible]	[illegible]	[illegible]	4.51	6.00	5.50	Cap'l Spending per sh	[illegible]
[illegible]	10.01	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.25	[illegible]	[illegible]	[illegible]	[illegible]	13.10	15.70	16.00	Book Value per sh	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17.35	17.50	17.50	Common Shs Outst'g	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.5	[illegible]	[illegible]	11.7	14.8	16.0	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	.76	.81			Relative P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			Avg Ann'l Div'd Yield	[illegible]

CAPITAL STRUCTURE as of [illegible]
Total Debt $226.6 mill. [illegible]
LT Debt $192.2 mill. LT Interest [illegible]
(LT interest earned: 4.2x) [illegible]

Leases, Uncapitalized Annual rentals [illegible]
Pension Assets-12/02 $[illegible] mill.
Obligation $117.4 mill.

Pfd Stock None

Common Stock 17,760,153 shs. as of 5/14/03

MARKET CAP: $550 million (Small Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	347.1	385	390	Revenues ($mill)	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	22.5	22.2	[illegible]	27.4	[illegible]	29.2	31.5	35.0	Net Profit ($mill)	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	37.5%	[illegible]	[illegible]	[illegible]	[illegible]	39.1%	39.0%	39.0%	Income Tax Rate	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	2%	[illegible]	1.9%	[illegible]	2.2%	1.4%	1.4%	1.4%	AFUDC % to Net Profit	[illegible]
[illegible]	40.3%	[illegible]	[illegible]	41.8%	[illegible]	44.5%	[illegible]	42.2%	[illegible]	45.0%	45.0%	Long-Term Debt Ratio	[illegible]
[illegible]	58.2%	[illegible]	58.1%	58.2%	[illegible]	55.5%	52.2%	57.8%	54.2%	55.0%	55.0%	Common Equity Ratio	[illegible]
[illegible]	325.4	415.4	308.0	310.8	[illegible]	334.3	[illegible]	373.9	419.5	485	510	Total Capital ($mill)	[illegible]
[illegible]	371.7	[illegible]	312.2	[illegible]	[illegible]	[illegible]	342.8	401.2	460.3	505	510	Net Plant ($mill)	[illegible]
9.7%	9.3%	7.0%	5.9%	8.8%	8.0%	8.8%	8.8%	9.0%	7.0%	6.5%	7.0%	Return on Total Cap'l	[illegible]
13.0%	12.9%	12.4%	7.4%	12.4%	12.2%	12.8%	13.7%	12.6%	12.8%	12.0%	12.5%	Return on Shr. Equity	[illegible]
13.1%	13.0%	12.4%	7.4%	12.4%	12.2%	12.8%	13.7%	12.6%	12.8%	12.0%	12.5%	Return on Com Equity E	[illegible]
2.4%	2.4%	1.9%	NMF	1.8%	.7%	1.5%	2.9%	2.3%	2.7%	3.5%	4.0%	Retained to Com Eq	4.5%
82%	82%	85%	NMF	92%	94%	89%	79%	82%	80%	75%	68%	All Div'ds to Net Prof	[illegible]

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+2.1	[illegible]	-1.6
Avg. Indust. Use (MWH)	4203	[illegible]	4824
Avg. Indust. Revs. per KWH (¢)	3.87	4.10	[illegible]
Capacity at Peak (Mw)	703	[illegible]	763
Peak Load, Summer (Mw)	[illegible]	[illegible]	699
Annual Load Factor (%)	58.1	[illegible]	[illegible]
% Change Customers (avg.)	+1.9	[illegible]	+1.0

Fixed Charge Cov. (%)	[illegible]	[illegible]	[illegible]

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	3.0%	[illegible]	[illegible]
"Cash Flow"	3.0%	[illegible]	[illegible]
Earnings	1.5%	[illegible]	[illegible]
Dividends	1.5%	[illegible]	[illegible]
Book Value	[illegible]	[illegible]	[illegible]

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	84.5	64.2	[illegible]	[illegible]	[illegible]
2001	122.0	70.3	[illegible]	[illegible]	[illegible]
2002	98.3	70.9	[illegible]	[illegible]	[illegible]
2003	128.5	[illegible]	[illegible]	[illegible]	[illegible]
2004	120	[illegible]	[illegible]	[illegible]	[illegible]

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.62	.15	.51	.39	1.67
2001	.57	.32	.36	.57	1.82
2002	.64	.26	.60	[illegible]	1.69
2003	.53	[illegible]	[illegible]	[illegible]	1.80
2004	.57	.29	[illegible]	[illegible]	2.00

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.326	.326	.328	.328	1.31
2000	.328	.328	.331	.331	1.32
2001	.331	.331	.333	.333	1.33
2002	.333	.333	.336	.336	1.34
2003	.336	.336			

BUSINESS: MGE Energy Inc. is a holding company for Madison Gas and Electric, which provides electric service to 130,000 customers in a 250-square-mile area of Dane County and gas service to 126,000 customers in 1,375 square miles in seven counties in Wisconsin. Electric revenue breakdown, '02: residential, 36%; commercial, 48%; industrial, 6%; public authorities, 7%; other, 3%. Generating sources, '02: coal, 56%; purchased power, 39%; gas, 4%; other, 1%. Fuel costs: 43% of revenues. '02 reported depreciation rate: electric, 3.4%; gas, 3.3%. Has 693 employees, 18,000 stockholders. Chairman, President & CEO: Gary J. Wolter. Inc.: Wisconsin. Address: 133 South Blair St., P.O. Box 1231, Madison, WI 53701-1231. Tel.: 608-252-7000. Internet: www.mge.com.

Higher fuel costs are hurting MGE Energy's results. Revenues within the company's electric utility operations increased 10.4%, year over year, in the March quarter, reflecting rate increases as well as higher electricity consumption per customer. That said, the cost of fuel needed to generate electricity jumped 24.8% while the total price paid for purchased power increased 69.2%. The company's reliance on natural gas-fired power plants at a time when the price of that fuel has spiked, is largely to blame. The coal-fired Columbia Energy Center plant has been out of service more often so far this year. In addition, MGE's generation mix includes more electricity bought from gas-fired plants since two new purchased power contracts took effect in May 2002. Going forward, MGE gets the full benefit from recent rate hikes, which should help offset the higher fuel costs; effective March 1, the Public Service Commission of Wisconsin granted MGE a 9.1% increase in electric rates and a 5.4% increase in gas rates. Still, we're lowering our 2003 earnings estimate to reflect higher fuel costs. Our target is now $1.80 a share, down from $1.95 in early April.

We look for modest profit growth out to 2006-2008. MGE's south-central Wisconsin service area boasts favorable demographics, which should support decent long-term operating performance; economic growth there is consistently higher than the national average. To keep pace with growing customer demand, MGE plans to add 300 megawatts of electric generating capacity over the next decade. A new cogeneration facility, capable of producing 150 megawatts of power, is planned. Assuming regulatory approval, it should be up and running on the University of Wisconsin campus by 2005.

MGE shares are ranked 5 (Lowest) for relative year-ahead price performance. They've had a strong run up in price over the past several years and subsequently carry one of the highest price-earnings ratio of any utility equity. MGE's yield, at 4.4%, is relatively attractive. Still, we thing investors stressing total return potential to 2006-2008 will find better opportunities elsewhere.

Nils C. Van Liew *July 4, 2003*

(A) Excl. nonrecurring loss: '96, 42¢. Next earnings report due mid-Aug. (B) Dividends historically paid in mid-March, June, September, December ■ Dividend reinvestment plan available. (C) Incl. deferred charges in '02: $27.1 mill., $1.59/sh. (D) In millions. (E) Rate allowed on common equity in '02: 12.3%; earned on average common equity '02: [illegible] 13.0%. Regulatory Climate: Above Average.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	20
Earnings Predictability	70

Item 3, page 13

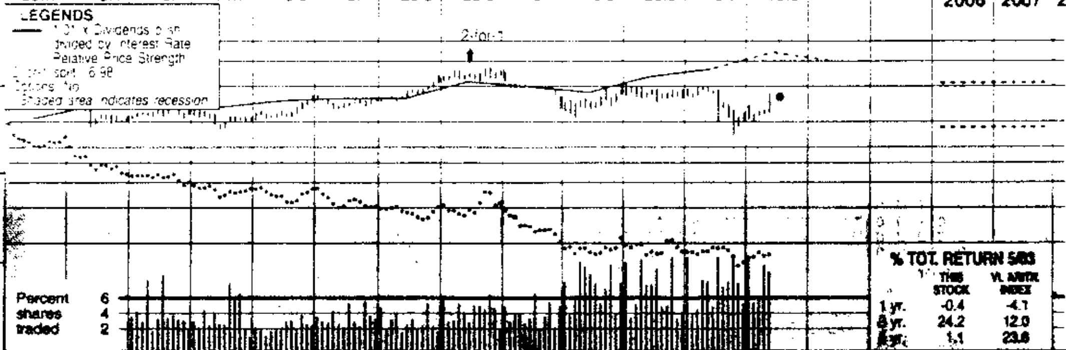
OGE ENERGY CORP. NYSE-OGE

RECENT PRICE 21.35 | P/E RATIO 14.7 (Trailing: 13.4, Median: 13.0) | RELATIVE P/E RATIO 0.88 | DIV'D YLD 6.2-3.7% | VALUE LINE 713

TIMELINESS 4 Lowered 6.20.03
SAFETY 3 Lowered 1.3.03
TECHNICAL 3 Lowered 7.4.03
BETA .60 (1.00 = Market)

High:	22.0	19.3	18.6	21.8	21.8	27.4	30.0	29.[illegible]	24.8	24.7	24.2	22.3
Low:	15.1	16.4	14.7	16.3	18.4	20.3	25.6	[illegible]	16.5	20.0	13.7	16.0

Target Price Range 2006 2007 2008



% TOT. RETURN 5/03	THIS STOCK	VL ARITH INDEX
1 yr.	-0.4	-4.1
3 yr.	24.2	12.0
5 yr.	1.1	23.6

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	25	(+15%)	10%
Low	15	(-30%)	-1%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	1	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	77	72	75
to Sell	61	57	68
Hld's(000)	26221	24764	26463

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
12.87	12.98	13.88	15.27	16.31	16.30	17.94	16.79	16.13	17.18	18.23	20.02	27.90	42.33	40.80	38.52	50.30	50.30	Revenues per sh	50.25
2.45	2.78	2.78	2.98	2.97	2.58	2.87	3.07	3.16	3.31	3.38	3.90	4.06	4.15	3.61	2.75	2.75	[illegible]	"Cash Flow" per sh	4.25
1.30	1.60	1.53	1.89	1.64	1.21	1.39	1.51	1.52	1.62	1.61	2.04	1.94	1.89	1.29	1.43	1.45	1.50	Earnings per sh A	1.75
1.11	1.16	1.21	1.26	1.30	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	Div'd Decl'd per sh B ■	1.33
1.17	1.31	1.36	1.45	1.43	1.76	1.58	1.87	1.75	2.00	2.03	1.86	2.33	2.30	2.89	2.99	2.45	2.25	Cap'l Spending per sh	2.00
10.05	10.50	10.64	10.[illegible]	11.30	11.18	11.24	11.41	11.61	11.91	12.19	12.91	13.09	13.66	13.34	12.53	12.90	13.35	Book Value per sh C	15.00
84.68	84.84	82.20	80.60	80.60	80.66	80.69	80.71	80.75	80.76	80.77	80.80	77.86	77.92	77.99	78.50	80.50	82.50	Common Shs Outst'g D	88.50
12.9	9.8	11.5	10.6	12.0	14.7	12.8	11.1	11.9	12.3	14.0	13.3	12.1	10.6	17.4	14.1	Bold figures are	Value Line estimates	Avg Ann'l P/E Ratio	12.5
.82	.81	.87	.79	.77	.89	.76	.73	.80	.77	.81	.69	.69	.69	.89	.77			Relative P/E Ratio	.85
6.9%	7.3%	6.9%	7.0%	6.6%	7.5%	7.5%	8.0%	7.4%	6.7%	5.9%	4.9%	5.7%	6.6%	5.9%	6.6%			Avg Ann'l Div'd Yield	7.0%
						1447.3	1355.2	1302.0	1387.4	1472.3	1617.7	2172.4	3298.7	3182.4	3023.9	4050	4150	Revenues ($mill)	4450
						114.3	123.8	125.3	133.3	132.6	165.9	151.3	147.0	100.6	111.7	115	120	Net Profit ($mill)	160
						38.5%	36.9%	35.9%	36.8%	36.6%	39.6%	37.3%	34.2%	34.3%	36.4%	37.0%	37.0%	Income Tax Rate	37.0%
						.4%	.9%	1.0%	.5%	.5%	.6%	.5%	1.5%	.7%	.8%	1.0%	1.0%	AFUDC % to Net Profit	1.0%
						46.7%	42.9%	46.1%	45.1%	44.9%	47.3%	52.8%	60.8%	59.5%	60.4%	58.5%	55.0%	Long-Term Debt Ratio	53.0%
						50.5%	54.1%	51.2%	52.3%	52.5%	52.7%	47.2%	39.2%	40.5%	39.6%	41.5%	45.0%	Common Equity Ratio	47.0%
						1795.4	1701.7	1831.3	1840.3	1876.2	1979.0	2159.9	2712.8	2586.9	2485.8	2485	2455	Total Capital ($mill)	2825
						2319.9	2326.9	2343.3	2346.1	2353.9	2526.6	3242.0	3219.5	3263.7	3204.3	3175	3170	Net Plant ($mill)	3075
						8.3%	9.3%	8.7%	8.9%	8.7%	9.9%	8.8%	7.6%	6.2%	6.6%	6.5%	6.5%	Return on Total Cap'l	7.0%
						11.9%	12.7%	12.7%	13.2%	12.8%	15.9%	14.8%	13.8%	9.7%	11.4%	11.0%	11.0%	Return on Shr. Equity	11.5%
						12.3%	13.2%	13.1%	13.6%	13.2%	15.8%	14.8%	13.8%	9.7%	11.4%	11.0%	11.0%	Return on Com Equity E	11.5%
						.5%	1.5%	1.7%	2.5%	2.3%	5.5%	4.7%	4.1%	NMF	1.2%	1.0%	1.5%	Retained to Com Eq	2.5%
						96%	89%	88%	82%	83%	65%	68%	70%	103%	89%	93%	89%	All Div'ds to Net Prof	77%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $1696.1 mill. Due in 5 Yrs $400.2 mill.
LT Debt $1490.1 mill. LT Interest $93.2 mill.
Incl. $200 mill. 8.375% Trust Originated Preferred Securities, redeemable at $25/sh. in '04.
(LT interest earned: 2.9x)
Leases, Uncapitalized Annual rentals $9.7 mill.

Pension Assets-12/02 $286.3 mill. Oblig. $443.0 mill.
Pfd Stock None
Common Stock 79,218,054 shs. as of 4/30/03
MARKET CAP: $1.7 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+6.4	-2.0	+.4
Avg. Indust. Use (MWH)	802	740	NA
Avg. Indust. Revs. per KWH (¢)	4.06	4.11	NA
Capacity at Peak (Mw)	5781	5732	5606
Peak Load, Summer (Mw)	5754	5788	5427
Annual Load Factor (%)	55.3	54.5	NA
% Change Customers (yr-end)	+.6	+1.1	+1.2
Fixed Charge Cov. (%)	259	217	256

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	[illegible]	18.5%	[illegible]
"Cash Flow"	2.0%	3.0%	1.5%
Earnings	[illegible]	-.5%	2.0%
Dividends	[illegible]	--	Nil
Book Value	1.5%	2.0%	2.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	5[illegible]	723.9	1060.0	982.2	3298.7
2001	1065.5	787.9	827.8	543.[illegible]	3182.4
2002	578.9	739.8	887.3	829.9	3023.9
2003	1050.2	950	1050	999.8	4050
2004	1000	1000	1100	1050	4150

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.01	.41	1.38	.09	1.89
2001	d.19	.32	1.25	d.08	1.29
2002	d.11	.33	1.24	d.03	1.43
2003	.05	.35	1.05	Nil	1.45
2004	Nil	.40	1.10	Nil	1.50

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.333	.333	.333	.333	1.33
2000	.333	.333	.333	.333	1.33
2001	.333	.333	.333	.333	1.33
2002	.333	.333	.333	.333	1.33
2003	.333	.333	.333		

BUSINESS: OGE Energy Corp. is a holding company for Oklahoma Gas and Electric Company (OG&E), which supplies electricity (46% of revenues, 94% of net inc.) to 719,000 customers in Oklahoma (92% of electric revenues) & western Arkansas (8%). Owns Enogex pipeline subsid. (54% of revenues, 6% of net inc.). Acq'd Transok 6/99. Electric rev. breakdown, '02: residential, 40%; commercial, 25%; industrial, 19%; other, 16%. Generating sources, '02: coal, 63%; gas, 24%; purchased, 13%. Fuel costs: 70% of revs. '02 reported deprec. rate: 3.1%. Has 3,[illegible] employees, 29,390 com. stockholders. Chairman, President & CEO: Steven E. Moore. Inc.: OK. Address: 321 North Harvey, P.O. Box 321, Oklahoma City, OK 73101-0321. Tel.: 405-553-3000. Internet: www.oge.com.

OGE Energy is in negotiations to purchase 400 megawatts of generating capacity. As part of a regulatory decision, the Oklahoma [illegible] (which cut the utility's [illegible] by $[illegible] million, effective January of 2003) ordered the utility to acquire 400 megawatts of capacity this year. OGE would probably finance a purchase with slightly more equity than debt. We will not factor a plant acquisition into our figures until it is a done deal.
The utility plans to file a rate case once it has signed a definitive agreement to buy a plant. At this point, we don't know how much it will request, or on what return on equity it will be based. The Oklahoma commission must complete its hearings within 180 days of the filing, so a final order won't take effect until some time in 2004. Costs associated with the new plant would be deferred as a regulatory asset until new rates take effect.
Earnings in 2003 will likely approximate the previous year's tally. Due to OGE's better-than-expected March-quarter showing, we have raised our 2003 estimate by $0.10 a share, to $1.45. That puts it at the top of OGE's target of $1.35-$1.45. Our 2004 estimate assumes some rate relief, but (in accordance with [illegible] policy) it does not [illegible] [illegible] This [illegible] in 2002 with a $[illegible] million [illegible] $31 million impairment charge). And it's possible that earnings [illegible] this year. The [illegible] are [illegible] natural gas [illegible] so that this operation is more [illegible]-based and less susceptible to commodity prices; cost-cutting; and debt reduction, thanks in part to the proceeds of $108 million it raised through the sale of noncore assets.
We are still worried about the dividend. Management has stated that it intends to maintain the dividend. Our concern is that OGE's earning power has diminished to a level that might not support the payout at the current level. Indeed, though we project improvement by 2006-2008, our forecast is below the 2000 tally. Thus, we still show a split dividend at the top of the page, and we advise investors to look elsewhere.

Paul E. Debbas, CFA *July 4, 2003*

(A) Diluted EPS. Excl. nonrecurring losses: '02, 39¢; '03, 7¢; gains on discontinued ops.: '02, 12¢; '03, 2¢. '01 EPS don't add due to rounding. Next earnings report due early Aug.
(B) Dividends historically paid in late Jan., Apr., July, and Oct. ■ Div'd reinvestment plan available. (C) Incl. deferred charges. In '02: $1.98/sh. (D) In mill., adj. for split. (E) Rate base: Net orig. cost. Rate allowed on com. eq. in '03: OK, 11.55%; in '87: AR, 13.0%; earned on avg. com. eq., '02: 10.9%. Regulatory Climate: Average.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	25
Earnings Predictability	60

Item 3, page 14

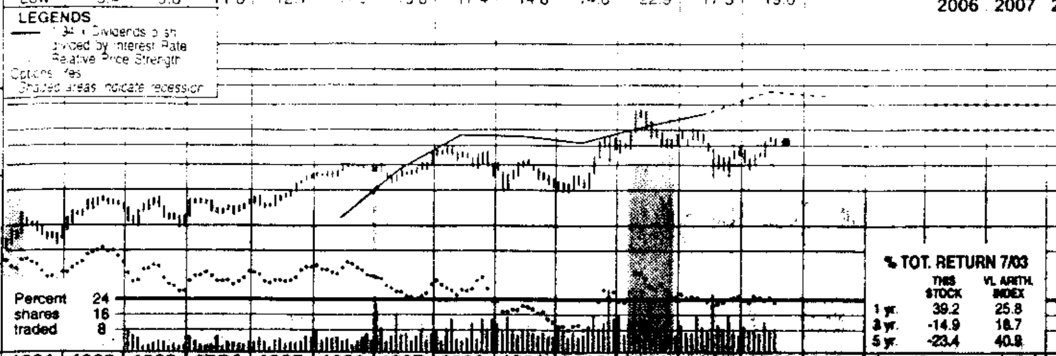
PNM RESOURCES NYSE-PNM

RECENT PRICE	26.20	P/E RATIO	13.8 (Trailing: 15.7 Median: 9.5)	RELATIVE P/E RATIO	0.81	DIV'D YLD	3.6%	VALUE LINE	1785

TIMELINESS 4 Raised 10/4/02
SAFETY 2 Raised 8/16/02
TECHNICAL 3 Raised 7/18/03
BETA .70 (1.00 = Market)

High:	14.1	13.9	13.6	18.3	20.5	23.7	24.8	21.5	28.3	37.8	30.8	27.8
Low:	9.4	9.8	11.0	12.1	17.3	15.8	17.4	14.8	14.6	22.9	17.3	19.0

Target Price Range
2006 2007 2008



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+55%)	14%
Low	30	(+15%)	7%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	0	0	0	0	1	0	0
Options	0	0	0	0	0	0	0	0	2
to Sell	0	0	0	0	0	0	1	0	2

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	73	67	76
to Sell	64	49	52
Hld's(000)	33099	33424	33560

% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	39.2	25.8
3 yr.	-14.9	18.7
5 yr.	-23.4	40.8

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
[illegible]	20.15	21.91	20.47	20.52	20.40	20.92	21.66	19.35	21.15	27.18	26.15	28.44	41.19	60.13	29.86	36.30	36.80	Revenues per sh	38.80
[illegible]	4.15	3.65	2.46	2.65	3.14	3.51	3.83	3.57	3.91	3.86	4.57	4.22	4.73	6.46	4.25	4.50	4.75	"Cash Flow" per sh	5.20
[illegible]	1.87	1.73	.32	.32	.75	1.21	1.66	1.37	1.72	1.88	2.25	1.93	2.32	3.92	1.61	1.90	2.00	Earnings per sh A	2.15
2.92	4.87	.38	--	--	--	--	--	--	.36	.63	.77	.80	.80	.80	.86	.91	.95	Div'd Decl'd per sh B ■	1.07
[illegible]	2.87	1.77	1.95	1.91	2.27	2.41	2.86	2.55	2.13	3.07	3.08	2.34	3.75	6.77	6.14	3.90	3.55	Cap'l Spending per sh	3.55
[illegible]	18.03	18.02	17.36	17.69	15.00	13.29	15.11	16.83	18.06	19.26	20.63	22.11	23.64	25.67	24.90	25.95	27.00	Book Value per sh C	30.20
[illegible]	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	40.70	39.12	39.12	39.12	40.20	40.20	Common Shs Outst'g D	40.20
[illegible]	7.9	7.8	34.7	29.1	16.5	9.5	7.5	10.6	11.0	10.0	9.8	9.5	8.5	7.3	15.1	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	16.5
1.02	.66	.59	2.58	1.86	1.00	.56	.49	.71	.69	.58	.51	.54	.55	.37	.82			Relative P/E Ratio	1.10
[illegible]	12.0%	2.8%	--	--	--	--	--	--	1.9%	3.3%	3.5%	4.4%	4.1%	2.8%	3.5%			Avg Ann'l Div'd Yield	3.1%
						873.9	904.7	808.5	883.4	1135.3	1092.4	1157.5	1611.3	2352.1	1169.0	1460	1480	Revenues ($mill)	1600
						57.6	75.7	60.9	72.6	79.3	105.2	79.9	92.7	156.3	64.3	75.0	80.0	Net Profit ($mill)	85.0
						30.9%	36.9%	45.5%	35.2%	37.1%	34.9%	34.6%	44.5%	34.2%	24.5%	25.0%	25.0%	Income Tax Rate	25.0%
						.7%	.4%	--	--	--	--	--	--	--	--	--	--	AFUDC % to Net Profit	--
						60.0%	51.5%	50.5%	48.2%	46.6%	53.2%	52.0%	50.4%	48.2%	49.8%	48.0%	47.0%	Long-Term Debt Ratio	44.5%
						34.8%	43.2%	48.7%	50.9%	52.5%	45.4%	47.3%	48.9%	51.1%	49.5%	51.0%	52.0%	Common Equity Ratio	55.0%
						1596.4	1460.5	1444.5	1481.0	1531.2	1896.4	1901.2	1891.3	1978.7	1986.9	2035	2080	Total Capital ($mill)	2205
						1703.9	1696.7	1574.4	1552.7	1573.2	1593.8	1582.4	1617.3	1781.0	1867.3	1915	1945	Net Plant ($mill)	2015
						5.9%	7.4%	6.2%	6.6%	6.7%	6.9%	5.9%	6.6%	9.5%	4.7%	5.0%	5.5%	Return on Total Cap'l	5.0%
						9.0%	10.7%	8.5%	9.5%	9.7%	11.8%	8.8%	9.9%	15.3%	6.5%	7.0%	7.5%	Return on Shr. Equity	7.0%
						9.2%	11.0%	7.9%	9.5%	9.8%	12.1%	8.8%	10.0%	15.4%	6.5%	7.0%	7.5%	Return on Com Equity E	7.0%
						9.2%	11.0%	7.9%	7.6%	6.5%	8.4%	5.2%	6.5%	12.3%	3.1%	4.0%	4.0%	Retained to Com Eq	3.5%
						11%	8%	8%	21%	34%	31%	42%	35%	20%	53%	48%	48%	All Div'ds to Net Prof	50%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $1150.1 mill. Due in 5 Yrs $448.0 mill.
LT Debt $980.1 mill. LT Interest $56.4 mill.
(LT interest earned: 2.3x)

Pension Assets-12/02 $319.1 mill. Oblig. $426.9 mill.

Pfd Stock $12.8 mill. Pfd Div'd $.6 mill.
128,000 shs. 4.58%, $100 par w/o mandatory redemption.
Sinking fund began 2/1/84.

Common Stock 39,117,799 shs. as of 5/1/03
MARKET CAP: $1.0 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+4.2	+2.3	+2.1
[illegible] (MWH)	4163	4252	5186
Avg. Indust. Revs. per KWH (¢)	5.16	5.16	5.16
Capacity at Peak (Mw)	1521	1521	1742
Peak Load, Summer (Mw)	1368	1397	1456
Annual Load Factor (%)	66.6	69.9	67.5
% Change Customers (yr-end)	+2.0	+2.4	+1.5
Fixed Charge Cov. (%)	268	481	177

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
[illegible]	8.0%	14.0%	1.5%
[illegible]	6.5%	4.5%	[illegible]
[illegible]	19.0%	9.5%	3.5%
[illegible]	--	20.0%	4.5%
Book Value	4.0%	6.5%	3.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	321.3	329.0	499.5	461.5	1611.3
2001	736.5	666.1	621.9	327.6	2352.1
2002	314.0	264.6	289.4	301.0	1169.0
2003	387.7	340.2	360	372.1	1460
2004	360	350	380	390	1480

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.55	.45	.97	.35	2.32
2001	1.60	1.24	.88	.20	3.92
2002	.63	.28	.45	.25	1.61
2003	.53	.44	.60	.33	1.90
2004	.55	.45	.65	.35	2.00

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.20	.20	.20	.20	.80
2000	.20	.20	.20	.20	.80
2001	.20	.20	.20	.20	.80
2002	.20	.22	.22	.22	.86
2003	.22	.23	.23		

BUSINESS: PNM Resources, parent of Public Service Company of New Mexico, sells electricity (77% of revenues), gas (23%), other less than (1%) in north-central New Mexico (population: 1,300,000). Largest customer: City of Albuquerque. Electric revenue breakdown: residential, 35%; commercial, 43%; industrial, 14%; other, 8%. Area's military establishments are major customers. Fuels: coal, 68%; nuclear, 31%; gas/oil, 1%. Fuel costs: 47% of revs.; labor costs: 16%. '02 depreciation rate: 3.4%. Est'd plant age: 13 years. Has 2,656 employees, 15,046 stockholders. Chairman, Chief Executive Officer & President: Jeffry E. Sterba. Incorp.: New Mexico. Address: 414 Silver Avenue, South West, Albuquerque, New Mexico 87158. Telephone: 505-241-2477. Internet: www.pnm.com.

PNM Resources has an agreement with interested parties covering gas rates. The settlement provides for a $20 million increase in base rates and $2 million in miscellaneous customer charges. (The company had filed for $37.6 million.) The additional revenues provide a 10.25% return on equity on the gas utility, compared to an earned return of under 3% in 2002. A further increase in off-system market-based transportation revenues could boost the return by another 1%. The agreement also allows PNM to recover $4.4 million in costs previously approved by the commission but not yet collected. These costs will be recovered over three years. If the regulators approve the arrangement, which we consider likely, the order will take effect in November.

The wholesale power marketing business is performing well. Last year, PNM completed two merchant plants with a combined capacity of 215 megawatts (mw) in southern New Mexico. These units have good prospects because transmission restraints make importing power into the area difficult. Too, the company recently began operating three combustion turbines with a total capability of 215 mw and will add [illegible] units when market conditions [illegible]. In addition, [illegible] [illegible] wind power [illegible] [illegible] eastern New Mexico. PNM will buy [illegible] output for 25 years. The sale of energy generated by these plants will be free of commission oversight. The market for their output is strong.

Earnings will likely move higher this year. Since the state has no fuel adjustment clause, lower coal costs resulting from the shift from surface to underground mining will boost profits. Other pluses include a reduced payroll and expected gains on wholesale and retail energy sales. Overall, we estimate an 18% rise in 2003 earnings, to $1.90 a share. The gas rate agreement should help lift earnings next year. For now, the stock is untimely.

The yield is a cut below the group average. But a low payout ratio and steady earnings gains to 2006-2008 suggest above-average dividend growth over the same timeframe. At the stock's recent price, we rate PNM an average utility investment.

Arthur H. Medalie *August 15, 2003*

(A) EPS diluted. Next egs rep't due late Oct. Excl. nonrecur. gains (losses): '89, ($4.81); '90, (55¢); '92, ($3.42); '93, ($2.85); '94, 11¢; '95, net: 35¢; '97, 4¢; '98, net (24¢); '99, 8¢; '00, 21¢; '01, (15¢); '03, 69¢. (B) Div'ds historically paid in mid-Feb., mid-May, mid-Aug., and mid-Nov. ■Div'd reinvest. plan avail. (C) Incl. intang. in '02: $9.34/sh. (D) In mill. (E) Rate base: net orig. cost. Elect. ROE allow. in '90: 12.52%; earned on avg. com. eq. '02: 6.9%. Regul. Clim.: Avg.

Company's Financial Strength	B++
Stock's Price Stability	90
Price Growth Persistence	70
Earnings Predictability	50

PPL CORPORATION NYSE-PPL

RELATIVE P/E RATIO 0.63 | DIV'D YLD 4.1% | VALUE LINE

Institutional Decisions

	[illegible]	[illegible]	[illegible]
to Buy	155	159	152
to Sell	109	119	109
Hld's(000)	82600	83710	85893

Percent shares traded 18 / 12 / 6

% TOT. RETURN

	THIS STOCK	VL ARITH. INDEX
1 yr.	24.9	25.8
3 yr.	61.2	16.7
5 yr.	97.3	40.9

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
13.93	14.71	[illegible]	[illegible]	[illegible]	[illegible]	17.93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	30.18	36.06	32.76	34.75	35.85	Revenues per sh	42.75
2.91	3.22	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.02	6.41	7.15	7.50	"Cash Flow" per sh	9.60
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.57	3.07	3.50	3.70	Earnings per sh A	4.75
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.06	1.44	1.54	1.64	Div'd Decl'd per sh B ■	1.90
4.93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.96	6.48	[illegible]	3.35	Cap'l Spending per sh	[illegible]
13.14	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.87	12.87	13.42	17.35	20.55	Book Value per sh C	[illegible]
149.94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	148.04	[illegible]	165.74	177.00	187.00	Common Shs Outst'g D	[illegible]
11.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.9	[illegible]	11.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	12.5
.74	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	.58	[illegible]	.61			Relative P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			Avg Ann'l Div'd Yield	[illegible]

CAPITAL STRUCTURE as of [illegible]
Total Debt $[illegible] mill. Due in 5 Yrs $[illegible] mill.
LT Debt $[illegible] mill. LT Interest $[illegible] mill.
(LT interest earned: [illegible])
Leases, Uncapitalized Annual rentals $233.0 mill.
Pension Assets-12/02 $3.13 bill. Oblig. $3.68 bill.
Pfd Stock $733.0 mill. Pfd Div'd $52.0 mill.
505,189 shs. 3.35%-6.75%, $100 par, cum., callable 102.00-110.00; 311,000 shs. 6.125%-6.33%, $100 par, cum. Sinking fund begins 2003. Incl. 23 mill. units 7.75%, $25 liq. value; 82,000 units [illegible]23%, $1000 face value.
[illegible]mmon Stock 176,704,662 shs. as of 7/31/03
[illegible]ARKET CAP: $6.9 billion (Large Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5725.0	[illegible]	6150	6700	Revenues ($mill)	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	500.0	[illegible]	[illegible]	[illegible]	719	Net Profit ($mill)	[illegible]
48.2%	42.9%	[illegible]	41.5%	[illegible]	[illegible]	[illegible]	66.3%	29.7%	25.7%	27.0%	27.0%	Income Tax Rate	27.0%
1.5%	4.8%	[illegible]	[illegible]	[illegible]	2.3%	2.1%	4.0%	[illegible]	3.4%	1.0%	1.0%	AFUDC % to Net Profit	1.0%
48.7%	58.2%	[illegible]	[illegible]	[illegible]	69.1%	[illegible]	65.4%	64.8%	66.5%	[illegible]	64.0%	Long-Term Debt Ratio	57.5%
42.4%	41.9%	[illegible]	[illegible]	[illegible]	34.2%	28.2%	29.5%	23.7%	25.1%	27.5%	33.0%	Common Equity Ratio	40.0%
5720.5	5861.6	[illegible]	[illegible]	[illegible]	6229.0	5716.0	6826.0	7845.0	6868.0	11225	11675	Total Capital ($mill)	13100
7145.6	7194.5	[illegible]	[illegible]	[illegible]	[illegible]	5044.0	5848.0	6135.0	9566.0	[illegible]	11250	Net Plant ($mill)	10500
6.1%	6.7%	7.2%	7.5%	7.6%	9.5%	7.9%	9.7%	9.6%	8.8%	[illegible]	8.0%	Return on Total Cap'l	9.0%
11.9%	9.7%	10.8%	11.1%	11.0%	18.4%	16.9%	21.2%	20.6%	18.1%	17.5%	17.0%	Return on Shr. Equity	16.5%
13.0%	10.4%	11.6%	12.0%	11.5%	20.6%	19.0%	23.6%	28.2%	21.1%	[illegible]	17.5%	Return on Com Equity E	17.0%
2.6%	--	1.6%	2.2%	1.6%	6.4%	9.4%	16.1%	20.2%	12.4%	[illegible]	10.0%	Retained to Com Eq	10.0%
82%	100%	[illegible]	83%	[illegible]	71%	54%	35%	35%	49%	[illegible]	47%	All Div'ds to Net Prof	42%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+2.6	+2.1	+1.5
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (¢)	3.95	5.08	5.25
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Winter (Mw)	6515	6433	6906
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	--	+2.2	+.8
Fixed Charge Cov. (%)	268	231	190

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	8.0%	15.5%	2.5%
"Cash Flow"	6.0%	10.0%	6.0%
Earnings	5.0%	10.5%	6.0%
Dividends	-2.5%	-6.5%	8.0%
Book Value	-1.5%	-4.5%	13.0%

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	1416	1300	1462	1505	5683.0
2001	1566	1409	1438	1312	5725.0
2002	1351	1288	1476	1314	5429.0
2003	1487	1338	1825	1500	6150
2004	1575	1425	2125	1575	6700

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.99	.61	.87	.81	3.28
2001	1.52	.80	1.04	.22	3.57
2002	1.06	.46	.95	.65	3.07
2003	1.06	.67	1.02	.75	3.50
2004	1.10	.70	1.10	.80	3.70

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.25	.25	.25	.25	1.00
[illegible]	.25	.265	.265	.265	[illegible]
[illegible]	.265	.265	.265	.265	[illegible]
[illegible]	.265	.36	.36	.36	[illegible]
[illegible]	.36	.385	.385		

BUSINESS: PPL Corporation (formerly PP&L Resources, Inc.) is a holding company for PPL Utilities (formerly Pennsylvania Power & Light Company), which distributes electricity to about 1.3 million customers in a 10,000-square-mile area in eastern & central Pennsylvania. Also has subs. in power generation & marketing, foreign electricity distribution in U.K. and South America (3.5 million customers). Elec. rev. breakdown, '02: residential, 42%; commercial, 36%; industrial, 21%; other, 1%. Generating sources, '02: unavailable. Fuel costs: 37% of revs. '02 depr. rate: 3.6%. Has 12,700 employees, 87,800 com. stockholders. Chairman, President & CEO: William F. Hecht. Inc.: PA. Address: Two North Ninth St., Allentown, PA 18101-1179. Tel.: 800-345-3085. Internet: www.pplweb.com.

We have trimmed our 2003 and 2004 earnings estimates for PPL. The cut in our 2003 forecast is primarily due to the fact that second-quarter earnings fell short of our estimate. In addition, PPL has to place a formerly off-balance-sheet lease for a project (about $1 billion) on its balance sheet this year. The depreciation will reduce earnings by approximately $0.03 a share in 2003 and by $0.08-$0.09 a share in 2004. Our lower earnings estimates still fall within management's targets of $3.45-$3.75 this year and 5%-8% growth subsequently. We assume no change in the status of PPL's synthetic fuels investment, which generates tax credits amounting to $0.15 a share annually. The IRS is reviewing a number of synfuels projects to see if they produce the significant chemical change that is required to qualify for the tax credits.

The modest earnings reductions notwithstanding, there is more stability in PPL's earnings than there is for most companies involved in the wholesale power markets. Much of the company's wholesale power supply business is under two long-term contracts that expire in 2007 and 2009. In fact, the latter pact, with its utility sibling in Pennsylvania, contains annual price increases. And earnings of PPL's regulated electricity distribution utility are relatively predictable, albeit low. Most of the company's earnings uncertainty lies with its international distribution utilities (which are performing well, however) and the small proportion of its power-supply business that is not hedged. All told, only about 5% of the company's expected earnings is at risk in 2003, and 10%-15% is at risk in 2004.

PPL plans to file a rate case next year. Its Pennsylvania distribution utility is earning just a mid-single-digit return on equity. Given the subpar return and the fact that the quality of PPL's service has been high, the company appears to be in a good position to justify a rate hike once its price cap expires at the start of 2005.

This stock's yield is about average for a utility, but 3- to 5-year total-return potential is well above average for the industry. The low payout ratio and improving cash flow suggest healthy annual dividend increases through 2006-2008.

Paul E. Debbas, CFA *September 5, 2003*

(A) [illegible] EPS. Excl. nonrecur. gains (losses): [illegible] '95, 12¢; '97, 18¢; '98, ($5.69); '99, [illegible] 16¢; '01, ($2.35) net; '0[illegible], ($1.78); '03, [illegible]. EPS don't add due to rounding '02 due to change in shs. Next earnings report due [illegible] late Oct. (B) Dividends historically paid in early Jan., April, July, and Oct. ■ Dividend reinvestment plan available. (C) Incl. intangibles. In '02: $15.74/sh. (D) In mill., adj. for split. (E) Rate base: Fair value. Rate allo. on com. eq.: None specified; earned on avg. com. eq. '02: 22.0%. Regulatory Climate: Average.

Company's Financial Strength B+
Stock's Price Stability 80
Price Growth Persistence 50
Earnings Predictability 65

Item 3, page 16

PROGRESS ENERGY [illegible]

RECENT PRICE 40.87 | P/E RATIO 11.1 (Trailing: 10.7, Median: 14.0) | RELATIVE P/E RATIO 0.63 | DIV'D YLD 5.7% | VALUE LINE 172

TIMELINESS 4 | SAFETY 2 | TECHNICAL 4 | BETA .35 (1.00 = Market)

2006-08 PROJECTIONS

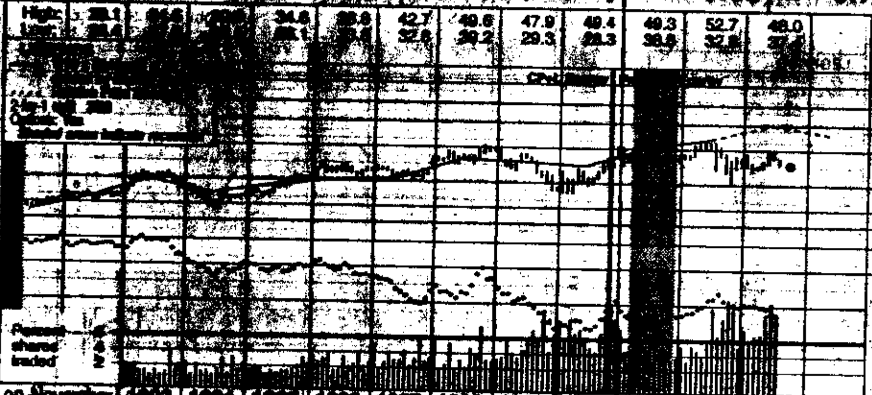
	Price	Gain	Ann'l Total Return
High	60	(+50%)	15%
Low	45	(+10%)	8%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	2	0	1	1	0	1	1	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	3	2	2	0	4	2

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	188	202	194
to Sell	150	127	135
Hld's(000)	123810	129768	134009



% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	-8.0	25.8
3 yr.	41.3	18.7
5 yr.	—	40.9

Progress Energy was formed on November 30, 2000 through the merger of CP&L Energy and Florida Progress. Florida Progress common shareholders exchanged each share held for $54 in cash and/or CP&L common stock. They also received one Contingent Value Obligation for each share of Florida Progress stock, entitling them to payments in the event that four synthetic fuel plants achieve certain economic targets from 2001 to 2007. Data prior to merger are for CP&L only and are not comparable with Progress Energy data.

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
18.01	18.39	18.77	19.78	19.90	20.68	21.04	19.80	38.69	34.16	[illegible]	35.50	Revenues per sh	37.30
6.09	4.97	5.92	6.47	6.26	6.44	6.06	5.37	8.14	7.02	7.15	7.40	"Cash Flow" per sh	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	2.66	2.75	2.55	2.34	3.43	3.84	3.70	3.80	Earnings per sh A	[illegible]
[illegible]	1.72	[illegible]	1.84	1.90	1.96	2.02	2.08	2.14	2.18	[illegible]	2.32	Div'd Decl'd per sh B	[illegible]
[illegible]	[illegible]	[illegible]	2.44	2.57	2.88	4.32	4.61	4.58	5.05	[illegible]	4.15	Cap'l Spending per sh	[illegible]
[illegible]	[illegible]	[illegible]	17.77	18.63	19.40	21.38	26.32	27.45	28.73	[illegible]	32.05	Book Value per sh C	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	151.36	151.34	159.80	208.09	218.73	232.43	[illegible]	242.00	Common Shs Outst'g E	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	12.8	15.0	18.2	15.3	12.8	11.9	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	.79	.83	.97	.99	.64	.65			Relative P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	5.2%	4.8%	5.2%	5.8%	[illegible]	5.0%	5.2%			Avg Ann'l Div'd Yield	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3130.1	3357.6	4118.9	8461.5	7945.0	8400	8600	Revenues ($mill)	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	399.2	382.3	389.9	695.1	815.2	[illegible]	820	Net Profit ($mill)	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	37.8%	38.2%	40.3%	35.4%	--	35.0%	36.0%	36.0%	Income Tax Rate	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	1.3%	1.7%	3.0%	5.0%	2.6%	1.0%	2.0%	2.0%	AFUDC % to Net Profit	[illegible]
[illegible]	[illegible]	[illegible]	47.1%	45.6%	46.5%	46.8%	51.6%	60.9%	59.0%	55.5%	54.0%	Long-Term Debt Ratio	[illegible]
49.1%	49.2%	48.3%	50.2%	53.2%	52.4%	52.5%	47.6%	38.5%	40.4%	43.5%	45.0%	Common Equity Ratio	[illegible]
[illegible]	5260.8	[illegible]	5859.9	6293.8	5623.1	6500.6	11407	15560	16517	[illegible]	17300	Total Capital ($mill)	16700
6432.2	6849.5	6328.5	6399.9	6293.5	6299.5	6764.8	10437	10915	10656	10985	11275	Net Plant ($mill)	11500
8.8%	7.7%	8.8%	8.9%	8.9%	8.6%	7.3%	4.3%	6.4%	6.8%	7.0%	7.0%	Return on Total Cap'l	7.0%
13.2%	11.5%	13.7%	13.8%	13.5%	13.3%	11.0%	6.7%	11.4%	12.0%	12.0%	11.5%	Return on Shr. Equity	11.0%
13.6%	11.7%	14.1%	14.2%	13.8%	13.4%	11.1%	6.7%	11.5%	12.1%	12.0%	12.0%	Return on Com Equity D	11.0%
3.8%	1.9%	4.1%	4.5%	3.9%	4.0%	2.5%	NMF	4.3%	5.0%	4.5%	4.5%	Retained to Com Eq	4.5%
74%	85%	72%	69%	72%	71%	78%	101%	63%	59%	61%	61%	All Div'ds to Net Prof	60%

CAPITAL STRUCTURE as of 6/30/03
Total Debt $10478.1 mill. Due in 5 Yrs $3912.2 mill.
LT Debt $9597.9 mill. LT Interest $609.1 mill.
(LT interest earned: 1.8x)
Pension Assets-12/02 $1.36 bill. Oblig. $1.69 bill.
Pfd Stock $92.8 mill. Pfd Div'd $4.5 mill.
921,814 shs. $4.00 to $5.44 cum. no par, callable from $101 to $110 per sh. Sinking funds began in [illegible] and 1986, respectively.
Common Stock 240,800,322 shs. as of 4/30/03
MARKET CAP: $9.7 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	NMF	-.4	+2.8
Avg. Indust. Use (MWH)	1962	2306	2372
Avg. Indust. Revs. per KWH (¢)	N.A.	N.A.	5.58
Capacity at Peak (Mw)	21623	22589	22598
Peak Load, Summer (Mw)	19839	19166	20385
Annual Load Factor (%)	60.2	57.7	57.3
% Change Customers (yr-end)	NMF	+2.5	+2.2
Fixed Charge Cov. (%)	209	196	191

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	6.5%	9.5%	NMF
"Cash Flow"	3.5%	4.0%	NMF
Earnings	3.5%	4.5%	NMF
Dividends	3.5%	3.0%	NMF
Book Value	6.5%	9.0%	NMF

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	877.6	892.3	1084	1265	4118.9
2001	1908	2315	2330	1907	8461.5
2002	1787	1959	2277	1922	7945.0
2003	2016	2013	2350	2021	8400
2004	2060	2080	2390	2070	8600

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.56	.70	1.15	d.07	2.34
2001	.77	.56	1.77	.33	3.43
2002	.77	.83	1.53	.71	3.84
2003	.89	.64	1.60	.57	3.70
2004	.83	.77	1.60	.60	3.80

Calendar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	[illegible]	[illegible]	[illegible]	52	[illegible]
2000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2001	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUSINESS: Progress Energy, parent of CP&L Energy and Florida Progress, supplies electricity to portions of North Carolina, South Carolina, and Florida. Other operations include a fiber-optic network, internet services, coal mining and transportation, and financial services. Elect. revs.: resid., 52%; commer., 28%; indust., 16%; other, 4%. Power costs: 38% of revs; labor costs: 14%. Fuel sources (KWH): gas/oil/coal, 63%; nuclear, 36%; hydro, 1%. Has 15,300 employ., 72,380 comm. stockholders. '02 deprec. rate: 3.6%. Est'd plant age: 10 years. Chairman & CEO: William Cavanaugh 3rd. Pres.: Robert B. McGehee. Incorp.: North Carolina. Address: 411 Fayetteville Street, Raleigh, North Carolina 27602. Telep.: 1-800-662-7232. Internet: www.progress-energy.com.

Progress Energy's synthetic fuel tax credits may be at risk. The Florida Progress subsidiary invests in four fuel plants that combine a petroleum-based substance with coal waste to produce synthetic fuel. The sales qualify for federal tax credits, which were designed to reduce U.S. dependence on imported oil by promoting alternative energy sources. The company expects to sell 12 million tons of this fuel in 2003. That would add $0.75-$0.80 a share to corporate net. But the IRS recently announced that it would withdraw the credits if the process used to convert coal into synfuel fails to meet requirements. Management is confident that its conversion procedures comply with IRS standards, but it awaits an IRS field auditor's findings. The loss of tax credits would have a serious adverse impact on PGN's prospects.

The company is reducing investments in unproductive assets. It recently sold the North Carolina Natural Gas subsidiary for $400 million. This enterprise never lived up to expectations, and PGN took a charge of $20 million against the asset in 2002. Also up for sale is the affordable housing investment, which generates modest earnings of $0.02-$0.05 a share yearly but does not fit in with corporate strategy. On the block in 2003 is the leasing operation of the rail service business. The balance of this operation may be sold next year. Cash proceeds from these sales would be applied to debt reduction.

Earnings may decline this year. Positives include a full year of the April, 2002 acquisition of Westchester Natural Gas as well as higher wholesale sales, resulting from the output of new plants. But lower rates in Florida, additional shares outstanding, and higher pension costs will more than offset these pluses. Overall, we estimate a 4% reduction in 2003 earnings, to $3.70 a share. An expected 2% gain in retail sales points to an earnings uptick next year. The stock is ranked 4 (below Average) for Timeliness.

Our earnings and dividend projections assume retention of synthetic fuel tax credits. But because of the uncertainty and the large amounts involved, investors might do well to stay on the sidelines until this matter is clarified.

Arthur H. Medalie September 5, 2003

[illegible] due late Oct. [illegible] (75¢); [illegible] ($1.32). (B) Div'ds historically paid in early Feb., early May, early Aug., and early Nov. • Div'd reinvestment plan available. (C) Incl. [illegible] charges in '02: $23.63/sh. (D) Rate Base: Orig. cost. Rate allowed on common equity in '88 in N.C.: 12.75%; in '88 in S.C.: 12.75%; in '02 in Fla.: rev. sharing incentive plan. earn. on '02 avg. com. eq.: 13.2%. Regul. Clim.: Avg. (E) In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	90
Price Growth Persistence	NMF
Earnings Predictability	NMF

SCANA CORP.

RECENT PRICE 33.77 | P/E RATIO 13.1 | RELATIVE P/E RATIO 0.75 | DIV'D YLD 4.3% | VALUE LINE

TIMELINESS 3 | SAFETY 2 | TECHNICAL 4 | BETA .80 (1.00 = Market)

2006-08 PROJECTIONS

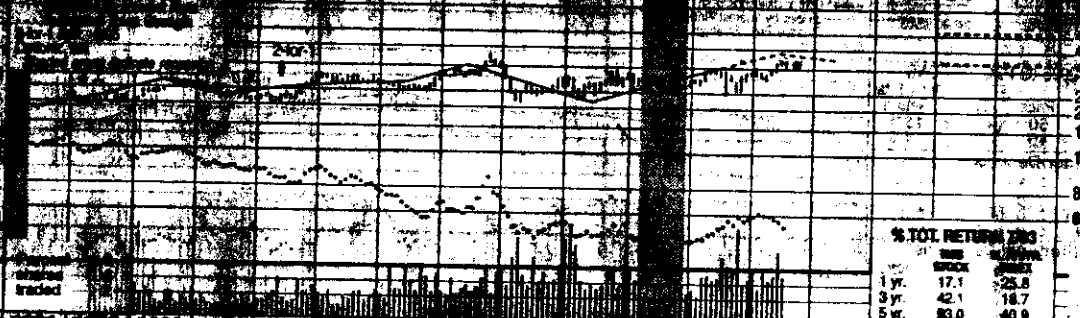
	Price	Gain	Ann'l Total Return
High	50	(+50%)	13%
Low	35	(+5%)	6%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	1
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	[illegible]	[illegible]	[illegible]
to Buy	105	107	91
to Sell	80	81	94
Hld's(000)	42312	41736	43128



% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	17.1	25.8
3 yr.	42.1	18.7
5 yr.	83.0	40.9

	1987	1988	1989	1990	1991	1992
Revenues per sh	13.85	13.44	[illegible]	[illegible]	[illegible]	[illegible]
"Cash Flow" per sh	2.75	2.71	[illegible]	[illegible]	[illegible]	[illegible]
Earnings per sh	1.60	1.50	[illegible]	[illegible]	[illegible]	[illegible]
Div'd Decl'd per sh	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cap'l Spending per sh	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Book Value per sh	10.82	11.11	[illegible]	[illegible]	[illegible]	[illegible]
Common Shs Outst'g	10.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Avg Ann'l P/E Ratio	10.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Relative P/E Ratio	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Avg Ann'l Div'd Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
	[illegible]	[illegible]	14.06?	14.25	14.19	15.76?	15.83	32.78?	32.95?	26.65?	31.55	32.00	Revenues per sh	[illegible]
	[illegible]	[illegible]	[illegible]	3.75?	3.53	3.62	3.15	6.43?	4.55?	4.56?	4.80	5.20	"Cash Flow" per sh	[illegible]
	[illegible]	[illegible]	[illegible]	2.05	[illegible]	2.12	1.44?	2.12	2.15	2.38	2.55	2.65	Earnings per sh A	[illegible]
	[illegible]	[illegible]	1.44?	1.47	1.51	1.54	1.82?	1.05?	1.20	1.30?	1.38?	1.46?	Div'd Decl'd per sh B ■	[illegible]
	[illegible]	[illegible]	[illegible]	2.34?	2.45	2.87?	2.37?	3.28?	4.08?	6.41	7.30?	4.55	Cap'l Spending per sh	[illegible]
	[illegible]	[illegible]	15.09?	15.65?	16.05?	16.86?	20.27	19.80?	20.95?	19.64	21.10	22.30	Book Value per sh C	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	107.32?	103.57?	103.57?	104.75?	104.83?	110.83	111.00	111.00	Common Shs Outst'g D	111.00?
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.5?	17.5?	12.5?	[illegible]	12.2	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.00?	.81?	[illegible]	.67			Relative P/E Ratio	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			Avg Ann'l Div'd Yield	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3433.0?	3451.8?	2954.0?	3600?	3650	Revenues ($mill)	[illegible]
	[illegible]	[illegible]	[illegible]	220.7?	[illegible]	235.0?	[illegible]	228.0?	231.0	[illegible]	285?	300	Net Profit ($mill)	[illegible]
	[illegible]	[illegible]	36.3%?	36.0%	32.6%?	35.8%?	41.0%	38.2%	38.9%?	32.2%?	36.0%	38.5%	Income Tax Rate	[illegible]
	[illegible]	8.8%?	11.5%	6.9%	8.1%?	6.8%?	4.4%	3.0%?	11.8%	13.5%	12.0%	16.0%	AFUDC % to Net Profit	[illegible]
	50.2%?	[illegible]	48.6%?	47.4%?	44.5%	45.9%?	40.8%?	57.4%?	58.9%?	55.7%	55.0%?	52.0%?	Long-Term Debt Ratio	47.0%?
	47.0%?	48.0%?	48.3%	50.5%?	50.0%?	48.4%?	54.8%?	40.3%?	43.8%?	42.1%	43.0%	46.0%?	Common Equity Ratio	51.0%?
	2836.3?	3028.6?	3215.8	3394.1?	3522.0	3636.0?	3829.0?	5048.0?	5006.0	5176.0	5450	5400	Total Capital ($mill)	[illegible]
	3004.1?	3293.7?	3469.0?	3529.0	3648.0	3764.0?	3829.0	4475.0?	4803.0	5474.0	6080?	6305	Net Plant ($mill)	6475?
	7.9%	7.0%	7.7%	8.3%	7.7%	8.4%	5.9%	6.6%?	6.9%	6.9%	7.0%	7.5%	Return on Total Cap'l	7.5%
	12.3%	10.6%	11.7%	12.6%	10.9%	12.3%	7.1%	10.6%	10.0%	11.3%	11.5%	11.5%	Return on Shr. Equity	11.5%
	12.6%	10.7%	11.8%	12.8%	11.4%	12.8%?	7.1%	10.9%	10.2%	11.6%	12.0%	12.0%	Return on Com Equity E	11.5%
	3.4%	1.4%	2.9%	3.7%	2.4%	3.4%	--	4.8%	4.6%	5.5%	5.5%	5.5%	Retained to Com Eq	5.0%
	74%	88%	76%	72%	80%	74%	99%	57%	56%	54%	56%	56%	All Div'ds to Net Prof	57%

CAPITAL STRUCTURE as of [illegible]
Total Debt $3645.0 mill. Due in 5 Yrs [illegible]
LT Debt $2930.0 mill. LT Interest [illegible]
(LT interest earned: [illegible])
Pension Assets-12/02 [illegible]
Pfd Stock $115.0 mill. [illegible]
125,209 shs. [illegible] cum., $50 par, call $52.50; [illegible]
220,287 shs. 4.50% to [illegible] cum., $50 par, call [illegible]
$50.50 to $51.00; 1,000,000 shs. 8.52% cum., [illegible]
$100 par, call. $100.00.

Common Stock 110,922,863 shs.
[illegible] 7/31/03
[illegible]KET CAP: $3.7 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+6.7	-3.0	+7.7
Avg. Indust. Use (MWH)	7001	6348	6341
Avg. Indust. Revs. per KWH (¢)	3.76	3.95	4.07
Capacity at Yearend (Mw)	4544	4520	4866?
Peak Load, Summer (Mw)	4211	4196	4404
Annual Load Factor (%)	61.1	59.4	59.9
% Change Customers (yr-end)	+2.6	+1.9	+2.3
Fixed Charge Cov. (%)	223	210	224

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	8.5%	17.5%	2.5%
"Cash Flow"	4.5%	4.5%	5.0%
Earnings	3.5%	2.5%	5.0%
Dividends	-.5%	-4.0%	5.5%
Book Value	4.5%	5.0%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	821.0	662.0	816.0	1134.0	3433.0
2001	1318.0	740.0	710.0	683.0	3451.8
2002	822.0	649.0	694.0	789.0	2954.0
2003	1069.0	726.0	800	805	3600
2004	1025	775	825	925	3650

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.72	.27	.56	.57	2.12
2001	.71	.29	.61	.54	2.15
2002	.74	.36	.74	.54	2.38
2003	.75	.38	.77	.65	2.55
2004	.78	.40	.79	.68	2.65

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.385	.385	.385	.275	1.43
2000	.275	.288	[illegible]	.288	1.14
2001	.285	.30	.30	.30	1.19
2002	.30	.325	.325	.325	1.28
2003	.325	.345	[illegible]		

BUSINESS: SCANA Corporation is a holding co. for South Carolina Electric & Gas Company, which supplies electricity to 564,000 customers in South Carolina. Supplies gas & transmission service to 1,033,000 customers in North & South Carolina & Georgia. Has investments in gas & telecommunications. Acquired P.S. of North Carolina 2/00. Electric rev. breakdown, '02: residential, 42%; commercial, 31%; industrial, 19%; other, 8%. Generating sources, '02: coal, 69%; nuclear, 20%; oil & gas, 5%; hydro, 4%; purchased, 2%. Fuel costs: 53% of revs. '02 reported deprec. rate: 3.1%. Has 5,400 employees, 40,200 com. stockholders. Chairman, Pres. & CEO: William B. Timmerman. Inc.: SC. Address: 1426 Main St., Columbia, SC 29201-2845. Tel.: 803-217-9000. Internet: www.scana.com.

SCANA continues to sell its telecommunications investments. Last year, the company raised $437 million through the divestiture of its largest holding, and used the cash for debt reduction. This year, SCANA sold a much smaller holding in the second quarter, raising $40 million in cash and booking a nonrecurring gain of $32 million ($0.29 a share) after also taking a small impairment charge against one of its remaining telecommunications investments. Those are on SCANA's books for $149 million. The company intends to sell them "in a prudent and timely manner."

Earnings should improve this year and next. South Carolina Electric & Gas is benefiting from a $70.7 million (5.8%) electric rate hike that took effect at the start of February. In addition, SCANA has lowered its borrowing costs through the refinancing of debt. We believe management's 2003 target of $2.50-$2.60 a share is reasonable, and our forecast is at the midpoint of this range. For 2004, our figure reflects a full year of the rate increase and a decline in interest expense. Investors should note, though, that electric and gas sales are barely up this year due to the sluggish economy, and if there isn't much improvement in 2004, our estimate could prove a bit high.

SCANA's construction program is going well. SCE&G is building a $450 million, 875-megawatt gas-fired plant that should achieve commercial operation next May. The electric rate hike placed $276 million of the cost in the rate base; the utility will evaluate the need for additional rate relief once the plant comes on line. The company is also spending $32 million on a gas pipeline that will supply fuel to the aforementioned plant. Finally, it is spending $275 million to reinforce a dam, a project that was required by the federal government. It should be completed by the fall of 2005. These projects are necessitating some financing, including a planned $150 million debt issuance in the fourth quarter.

SCANA stock offers an average yield, by utility standards. Assuming continued dividend growth through 2006-2008, this equity should provide investors with a respectable total return over that time.

Paul E. Debbas, CFA — *September 5, 2003*

(A) [illegible] nonrecurring gains (losses): '96, 57¢; [illegible] '97, 15¢; '99, [illegible]; '00, 28¢; '01, net $3.00; '02, ($3.72) net; [illegible]. Next earnings report due late October. (B) Dividends historically paid in early Jan., Apr., July, and Oct. ■ Dividend reinvestment plan available. (C) Incl. intangibles. In '02: $794 mill., $7.16/sh. (D) In mill., adj. for split. (E) Rate base: [illegible] orig. cost. Rate allowed on com. eq. [illegible] electric, 12.45%; earned on avg. com. eq. [illegible]. Regulatory Climate: Average.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	35
Earnings Predictability	80

Item 3, page 18

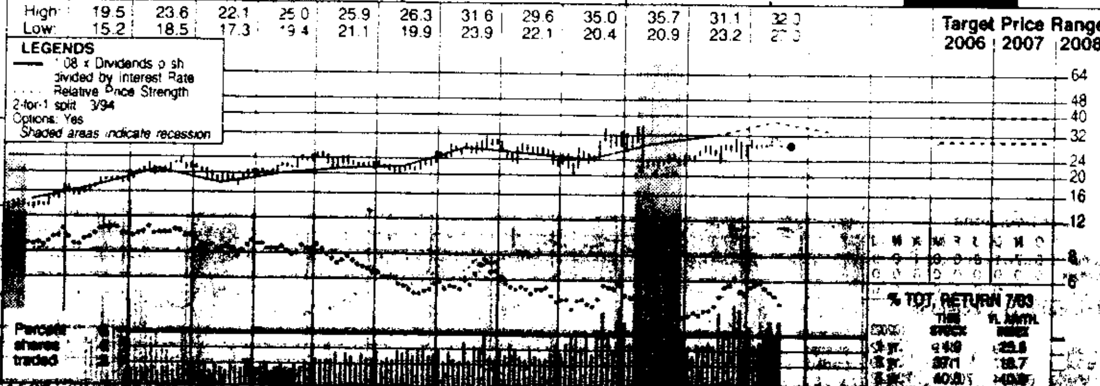
SOUTHERN CO. NYSE-SO

RECENT PRICE 28.50 | P/E RATIO 15.7 (Trailing: 14.5; Median: 14.0) | RELATIVE P/E RATIO 0.90 | DIV'D YLD 4.9% | VALUE LINE 175

TIMELINESS 3 New 9/5/03
SAFETY 2 Lowered 12/8/00
TECHNICAL 3 Raised 9/5/03
BETA .65 (1.00 = Market)

High:	19.5	23.6	22.1	25.0	25.9	26.3	31.6	29.6	35.0	35.7	31.1	32.0
Low:	15.2	18.5	17.3	19.4	21.1	19.9	23.9	22.1	20.4	20.9	23.2	27.0

Target Price Range 2006 | 2007 | 2008



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+40%)	13%
Low	30	(+5%)	6%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	1	0	0	1	0
Options	0	0	0	0	1	2	0	6	2
to Sell	0	0	0	0	1	2	0	5	2

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	251	257	254
to Sell	169	198	201
Hld's(000)	246821	246089	260625

In September 2000, Southern conducted an initial public offering in its global independent power marketing and trading subsidiary, called Mirant. Issuing 66.7 million shares, the company and Mirant shared $1.8 billion in gross proceeds. In April 2001, management spun off the remaining 80.3% stake in Mirant to Southern investors; 0.4 of a common share in the subsidiary was distributed for each common share in the parent held. A full-page report on Mirant Corp. can be found in Issue 6.

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
13.21	12.83	13.70	13.50	18.41	16.32	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Revenues per sh	[illegible]
3.13	3.22	3.32	3.64	3.90	4.25	4.17	[illegible]	[illegible]	3.46	[illegible]	[illegible]	"Cash Flow" per sh	[illegible]
1.57	1.52	1.66	1.68	1.58	1.79	1.83	2.01	1.61	1.85	1.85	1.95	Earnings per sh	2.35
1.14	1.18	1.22	1.26	1.30	1.34	1.34	1.34	1.34	1.36	1.39	1.42	Div'd Decl'd per sh	1.58
2.24	2.34	2.09	1.82	2.71	2.87	[illegible]	3.20	3.74	3.79	3.29	[illegible]	Cap'l Spending per sh	3.00
11.86	12.46	13.09	13.61	14.06	14.02	19.82	15.67	11.42	12.15	12.90	13.35	Book Value per sh	15.15
642.66	657.00	[illegible]	677.00	685.00	696.60	666.60	682.00	690.00	714.90	730.00	740.00	Common Shs Outst'g	770.00
13.5	12.9	13.2	13.8	14.0	15.7	14.3	13.2	14.6	14.8	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	16.0
.80	.85	.88	.86	.81	.82	.82	.86	.75	.80			Relative P/E Ratio	1.05
5.4%	6.0%	5.6%	5.5%	5.9%	4.9%	5.1%	5.0%	5.7%	5.0%			Avg Ann'l Div'd Yield	4.2%
8489.0	8297.0	9180.0	10358	12611	11403	11585	10066	10155	10549	11500	11700	Revenues ($mill) A	13125
1095.0	1076.0	1191.0	1234.0	1245.0	1372.0	1487.0	1801.0	1806.0	1940.0	1395	1515	Net Profit ($mill)	1975
36.2%	36.9%	38.2%	37.6%	36.6%	24.1%	25.6%	31.6%	29.5%	25.9%	28.0%	30.0%	Income Tax Rate	32.0%
2.0%	2.7%	2.1%	1.9%	1.6%	1.6%	1.9%	[illegible]	[illegible]	[illegible]	2.0%	1.5%	AFUDC % to Net Profit	1.5%
45.1%	44.1%	44.9%	42.6%	46.4%	45.8%	46.5%	57.1%	[illegible]	[illegible]	44.5%	44.0%	Long-Term Debt Ratio	43.5%
[illegible]	47.6%	47.4%	49.7%	43.5%	42.9%	47.6%	[illegible]	[illegible]	[illegible]	43.0%	44.0%	Common Equity Ratio	46.0%
[illegible]	17234	18510	18553	22158	22817	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Total Capital ($mill)	[illegible]
20013	21137	[illegible]	[illegible]	28852	24124	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	27500	Net Plant ($mill)	31775
8.5%	7.9%	7.9%	8.1%	7.1%	7.6%	7.6%	[illegible]	[illegible]	[illegible]	8.5%	8.5%	Return on Total Cap'l	9.0%
12.1%	11.2%	11.7%	11.6%	10.5%	11.1%	11.5%	11.3%	12.3%	13.2%	12.5%	13.0%	Return on Shr. Equity	14.0%
13.0%	12.3%	12.6%	12.2%	11.2%	[illegible]	[illegible]	[illegible]	14.6%	15.1%	14.6%	14.5%	Return on Com Equity E	16.0%
3.5%	2.7%	3.3%	3.0%	2.0%	2.7%	[illegible]	[illegible]	2.5%	4.1%	3.5%	4.0%	Retained to Com Eq	5.0%
72%	79%	76%	76%	84%	81%	77%	77%	[illegible]	75%	75%	75%	All Div'ds to Net Prof	71%

CAPITAL STRUCTURE as of 6/30/03
Total Debt $11,669 mill. Due in 5 Yrs $6,900 mill.
LT Debt $9,526 mill. LT Interest $570 mill.
(LT interest earned: 4.7x)
Pension Assets-12/02 $4.6 bill. Oblig. $4.1 bill.
Pfd Stock $2,023 mill. Pfd Div'd $132 mill.
Incl. 880,000 shs. [illegible], $100 par, 8 mill. shs. 5.20%-5.83%, $25 par, all cum. pfd. Incl. $435 mill. 6.85%-7.00%, $840 mill. 7.13%, $505 mill. 7.20%-8.19%, $640 mill. 4.75%-5.80%, $25 liq. val. pfd., all mand. redeem.
Common Stock 728,512,180 shs. as of 7/31/03
MARKET CAP: $20.8 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

[illegible]

EARNINGS PER SHARE

[illegible]

QUARTERLY DIVIDENDS PAID

[illegible]

[illegible]

Item 3, page 19

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Return on Total Cap'l	[illegible]
13.9%	18.9%	[illegible]	[illegible]	14.7%	18.3%	14.2%	16.7%	15.4%	9.1%	[illegible]	[illegible]	Return on Shr. Equity	[illegible]
14.3%	14.1%	[illegible]	[illegible]	[illegible]	13.3%	14.2%	16.7%	15.4%	9.9%	[illegible]	[illegible]	Return on Com Equity E	[illegible]
4.9%	3.8%	5.8%	5.8%	4.5%	2.6%	2.3%	6.5%	4.1%	3.2%	[illegible]	[illegible]	Retained to Com Eq	7.0%
73%	74%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	81%	72%	[illegible]	[illegible]	All Div'ds to Net Prof	[illegible]

BUSINESS: TECO Energy, Inc. is a holding company for Tampa Electric, serving [illegible] customers in central west Florida. Megawatt-hours sold: residential, [illegible]; industrial, 14%; commercial, 33%; other, 8%. Over [illegible] of Tampa Electric's electric generation is from coal-fired plants. TECO also mines coal, develops unregulated power projects, is involved in coal-bed methane-gas production, and [illegible]. Acq. Lykes Energy, 6/97. 2002 depreciation rate: 3.7%. TECO has 6,350 employees; Tampa Electric, 2,800. 23,029 common stockholders. Officers & directors own 2.2% of common stock (3/03 proxy). Chrmn., Pres. & CEO: Robert D. Fagan. Inc.: Florida. Addr.: 702 N. Franklin St., Tampa, FL 33602. Tel.: 813-228-1111. Internet: www.tecoenergy.com.

TECO Energy is selling assets and has cut its dividend to shore up its balance sheet. The utility recently announced plans to sell its Hardee Power Station for $115 million and the assumption of all outstanding project-related debt. The transaction is expected to close by the end of the third quarter, and will likely record a pretax gain of around $60 million (not included in our earnings presentation) on the sale. The utility also reduced its annual dividend rate from $1.42 to $0.76 a share, effective May 1st. TE is in a frantic race to raise cash to fund construction projects at Tampa Electric and its nonregulated power services subsidiary. The company completed the sale of its coalbed methane properties for $140 million earlier this year. In late April, Moody's Investor Service downgraded TECO's debt rating to junk status, which activated debt obligations on the construction of the nearly completed Gila River and Union power stations. The utility raised $550 million from two stock offerings over the past year, increasing its current shares outstanding to roughly 177 million.

Even excluding restructuring charges, the company's share net will likely fall by a hefty 35%-40% this year. TECO took $155.9 million, or $0.89 a share, in nonrecurring charges in the second quarter alone. Most of these charges stemmed from writeoffs of its turbine purchase cancellations and nonregulated power projects. The utility had aggressively built up its nonregulated power assets, but overcapacity in the power markets has limited its options to sell electricity from two power plants scheduled to go online in 2003. Although the company continues to sign new contracts, it will likely not be able to sell the total capacity of its 2,145-megawatt Gila River Power Station plant in Arizona and its 2,200-megawatt Union Power Station facility in Arkansas. On the bright side, TECO recently completed construction of the final two units at Gila.

Conservative investors should sit on the sidelines for now. The utility remains in a very dicey financial position. Furthermore, the high dividend yield is an indication of the uncertainties that still remain here.

Perry H. Roth *September 5, 2003*

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.42	.46	.65	.44	1.97
2001	.53	.53	.71	.47	2.24
2002	.49	[illegible]	.71	.20	1.36
2003	.20	.21	.34	.20	[illegible]
2004	.20	[illegible]	.36	.26	1.00

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.31	.325	.325	.325	1.29
2000	.325	.335	.335	.335	1.33
2001	.335	.345	.345	.345	1.37
2002	.345	.355	.355	.355	1.41
2003	.355	.19	.19		

[illegible]ted earnings. Excl. nonrecurring gains (losses): '88, (6¢); '93, 10¢; '97, (6¢); '99, [illegible]; '03, ($1.12). Next earnings report due late Oct. (B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November. ■ Div'd reinvestment plan avail. (C) Incl. deferred charges. In '02: $817.9 mill., $4.00/sh. (D) In mill., adjusted for split. (E) Rate base: net original cost. Allowed return on common equity in '95: 12.75%. Earned on '02 avg. common equity: 12.71%. Regulatory Climate: Above Average.

Company's Financial Strength	B
Stock's Price Stability	75
Price Growth Persistence	20
Earnings Predictability	80

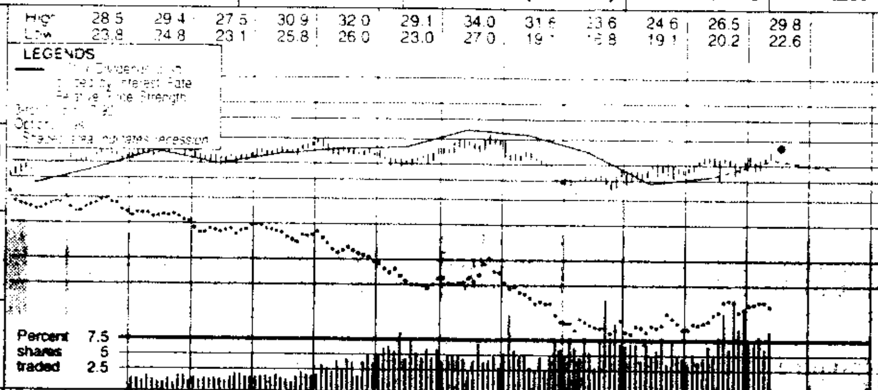
WISCONSIN ENERGY NYSE-WEC

RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
29.40	12.5 (Trailing: 12.5; Median: 14.0)	0.75	2.7%	719

TIMELINESS 3 Raised 5/11/01
SAFETY 2 Lowered 7/1/97
TECHNICAL 2 Raised 5/27/03
BETA .60 (1.00 = Market)

High	28.5	29.4	27.5	30.9	32.0	29.1	34.0	31.6	23.6	24.6	26.5	29.8
Low	23.8	24.8	23.1	25.8	26.0	23.0	27.0	19.7	16.8	19.1	20.2	22.6

Target Price Range 2006 2007 2008



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+35%)	11%
Low	30	(Nil)	4%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	1	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	1
to Sell	2	0	0	0	0	0	0	0	1

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	116	123	105
to Sell	84	89	109
Hld's(000)	61130	57986	63033

Percent shares traded 7.5 / 5 / 2.5

% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	8.4	-4.1
3 yr.	48.6	12.0
5 yr.	16.6	23.8

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
13.66	15.25	14.78	14.28	15.23	15.05	15.61	15.99	15.98	15.88	15.86	17.13	19.11	28.28	34.04	32.20	35.60	36.60	Revenues per sh	42.00
2.95	3.22	3.32	3.28	3.33	3.22	3.84	3.81	4.28	4.25	2.96	4.13	4.53	4.48	5.44	5.68	4.75	4.80	"Cash Flow" per sh	6.50
1.70	1.94	1.92	1.85	1.87	1.67	1.81	1.67	2.13	1.97	.54	1.65	1.88	1.08	1.84	2.32	2.35	2.40	Earnings per sh A	2.75
.94	1.01	1.09	1.16	1.23	1.29	1.34	1.40	1.46	1.51	1.54	1.56	1.56	1.37	.80	.80	.80	.80	Div'd Decl'd per sh B ■	1.00
4.01	1.88	2.04	2.09	2.40	3.11	3.43	2.76	2.50	3.53	3.13	3.52	4.44	5.29	6.03	5.07	4.10	4.45	Cap'l Spending per sh	7.50
11.30	12.18	13.01	13.70	14.35	14.97	15.67	16.01	16.89	17.42	16.51	16.46	16.89	17.00	17.81	18.44	20.00	21.60	Book Value per sh C	27.25
99.87	101.04	101.04	101.04	101.04	103.09	105.32	108.94	110.82	111.88	112.87	115.61	118.90	118.65	115.42	116.03	116.50	116.50	Common Shs Outst'g D	128.00
9.7	8.9	9.8	10.6	12.1	15.6	15.2	15.2	13.1	14.3	47.3	18.0	13.3	18.7	12.1	10.5	Bold figures are		Avg Ann'l P/E Ratio	12.0
.65	.74	.74	.79	.77	.95	.90	1.00	.88	.90	2.73	.94	.76	1.22	.62	.57	Value Line		Relative P/E Ratio	.80
5.7%	5.9%	5.8%	6.0%	5.4%	5.0%	4.9%	5.5%	5.2%	5.4%	6.0%	5.2%	6.3%	6.8%	3.6%	3.3%	estimates		Avg Ann'l Div'd Yield	3.6%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $4129.2 mill. Due in 5 Yrs $1758.0 mill.
LT Debt $3420.5 mill. LT Interest $219.9 mill.
Incl. $193.1 mill. capitalized leases.
Incl. $200 mill. 6.85% Trust Preferred Securities.
(LT interest earned: 2.9x)
Leases, Uncapitalized Annual rentals $33.6 mill.
Pension Assets-12/02 $861.2 mill. Oblig. $1.08 bill.
Pfd Stock $30.4 mill. Pfd Div'd $1.2 mill.
260,000 shs. 3.60%, $100 par, callable at $101; 44,498 shs. 6%, $100 par.
Common Stock 116,264,370 shs.
MARKET CAP: $3.4 billion (Mid Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
1643.7	1742.2	1770.5	1773.8	1789.6	1980.0	2272.6	3354.7	3928.5	3736.2	4150	4250	Revenues ($mill)	5850
192.9	182.2	235.2	219.3	61.9	189.3	231.5	132.0	218.8	270.8	275	280	Net Profit ($mill)	340
33.5%	35.1%	37.1%	36.4%	33.4%	32.7%	33.8%	43.7%	40.9%	37.4%	36.0%	36.0%	Income Tax Rate	36.0%
7.6%	5.5%	3.8%	3.9%	18.7%	5.7%	5.8%	12.3%	6.9%	4.1%	5.0%	5.0%	AFUDC % to Net Profit	4.0%
43.3%	42.0%	41.8%	41.7%	44.7%	47.5%	48.8%	58.9%	62.2%	59.8%	58.5%	56.5%	Long-Term Debt Ratio	47.5%
55.5%	57.0%	57.2%	57.4%	54.4%	51.7%	45.9%	40.5%	37.2%	39.6%	41.0%	43.0%	Common Equity Ratio	52.0%
2972.8	3058.7	3269.4	3391.9	3425.8	3682.6	4372.8	4979.9	5523.8	5400.3	5680	5860	Total Capital ($mill)	6325
2809.1	2940.7	2910.6	3057.9	3185.0	3238.4	3846.6	4152.4	4188.0	4398.8	4710	5050	Net Plant ($mill)	6275
8.2%	7.7%	8.8%	8.0%	3.4%	6.6%	6.7%	4.7%	5.8%	7.1%	6.5%	6.5%	Return on Total Cap'l	7.5%
11.4%	10.3%	12.4%	11.1%	3.3%	9.8%	10.3%	6.4%	10.5%	12.5%	11.5%	11.0%	Return on Shr. Equity	10.0%
11.4%	10.4%	12.5%	11.2%	3.3%	9.9%	10.9%	6.5%	10.6%	12.6%	11.5%	11.0%	Return on Com Equity E	10.0%
3.0%	1.7%	4.0%	2.6%	NMF	.6%	1.9%	NMF	6.0%	8.3%	7.5%	7.5%	Retained to Com Eq	6.5%
75%	83%	68%	77%	NMF	94%	84%	NMF	43%	35%	35%	34%	All Div'ds to Net Prof	36%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+3.1	-1.2	+2.8
Avg. Indust. Use (MWH)	16514	15743	15698
Avg. Indust. Revs. per KWH (¢)	4.00	4.29	4.34
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Summer (Mw)	5849	6298	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+2.0	+1.7	+1.2
Fixed Charge Cov. (%)	171	232	260

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	[illegible]	14.5%	5.0%
"Cash Flow"	[illegible]	6.5%	4.0%
Earnings	[illegible]	2.5%	8.0%
Dividends	[illegible]	-8.0%	Nil
Book Value	2.0%	1.0%	7.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	828.0	755.0	850.8	1120.9	3354.7
2001	1355.8	[illegible]	822.0	892.3	3928.5
2002	986.0	870.9	869.8	1009.5	3736.2
2003	1229.2	900	920.8	1100	4150
2004	1150	975	975	1150	4250

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.42	.25	.36	.05	1.08
2001	.65	.25	.41	.53	1.84
2002	.75	.43	.50	.64	2.32
2003	.79	.40	.55	.61	2.35
2004	.75	.45	.60	.60	2.40

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.39	.39	.39	.39	1.56
2000	.39	.39	.39	.20	1.37
2001	.20	.20	.20	.20	.80
2002	.20	.20	.20	.20	.80
2003	.20	.20			

BUSINESS: Wisconsin Energy Corporation (WEC) is a holding company for We Energies, which provide electric, gas & steam service in WI & upper MI. Customers: 1.1 mill. elec., 983,000 gas. Acq'd Edison Sault Electric 5/98; WICOR 4/00. Manufacturing ops. were 18% of revs. in '02. Elec. rev. breakdown, '02: res'l, 37%; small comm'l & ind'l, 32%; large comm'l & ind'l, 25%; other, 6%. Generating sources, '02: coal, 58%; nuclear, 26%; hydro, 2%; oil & gas, 1%; purch., 14%. Fuel costs: 31% of revs. '02 reported depr. rate (util.): 4.5%. Has 9,300 employees, 64,700 com. stockholders. Chairman & CEO: Richard A. Abdoo. President: Gale E. Klappa. Inc.: WI. Address: 231 W. Michigan St., P.O. Box 2949, Milwaukee, WI 53201. Tel.: 414-221-2345. Internet: www.wisconsinenergy.com.

Wisconsin Energy has begun construction of the first plant of its "Power the Future" plan. The Wisconsin commission approved [illegible] 545-megawatt gas-fired units last year, which are scheduled to go into service in 2005 and 2008. They will be leased to the utility under an agreement that gives Wisconsin Energy an opportunity (but not a guarantee) to earn a 12.7% return on equity. These plants are part of the $3.0 billion the company intends to spend on new generation over a 10-year period. Over that span, it also expects to spend $1.3 billion to upgrade existing facilities, and $2.7 billion on transmission and distribution.

Power the Future also proposes the construction of three coal-fired units. The Wisconsin commission will hold hearings later this year, with a decision due by yearend. Some intervenors have expressed opposition to this phase of the plan due to environmental and cost concerns, but Wisconsin Energy believes that fuel diversity is desirable. Indeed, recent high natural gas prices support its argument, even though coal-fired plants are more costly to build than gas-fired facilities. The company is seeking a 12.9% ROE on its coal-fired investment.

We have raised our [illegible] vorable weather conditions [illegible] an estimated $0.04-$0.06 in first-quarter results. We have also fine-tuned our 2004 estimate up (a nickel), as Wisconsin Energy continues to benefit from lower interest rates as it refinances debt. These shares are ranked 3 (Average) for Timeliness.

Wisconsin Energy stock has one of the lowest yields of any dividend-paying electric-utility equity. The board of directors hasn't raised the disbursement since it was slashed nearly 50% in 2000. Instead, the company has been repurchasing stock (though some of the effects of the buyback have been offset by issuances of stock through the dividend reinvestment program, and issuances actually exceeded repurchases in the first quarter of 2003). Since we project some dividend growth by 2006-2008, total-return potential over that time is comparable to that of the average electric-utility issue.

Paul E. Debbas, CFA *July 4, 2003*

(A) Diluted EPS. Excl. nonrecurring gains (losses): '88, (18¢); '99, (9¢); '00, 19¢ net; '01, 1¢ net; '02, (88¢). Next earnings report due late July. (B) Dividends historically paid in early Mar., June, Sept., Dec. ■ Div'd reinvestment plan available. (C) Incl. intangibles. In '02: $1.5 bill., $12.79/sh. (D) In millions, adj. for split. (E) Rate base: Net original cost. Rate allowed on common equity in '00: 12.2%; earned on avg. com. eq., '02: 12.5%. Regulatory Climate: Above Average.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	10
Earnings Predictability	45

Item 3, page 21

WPS RESOURCES NYSE-WPS

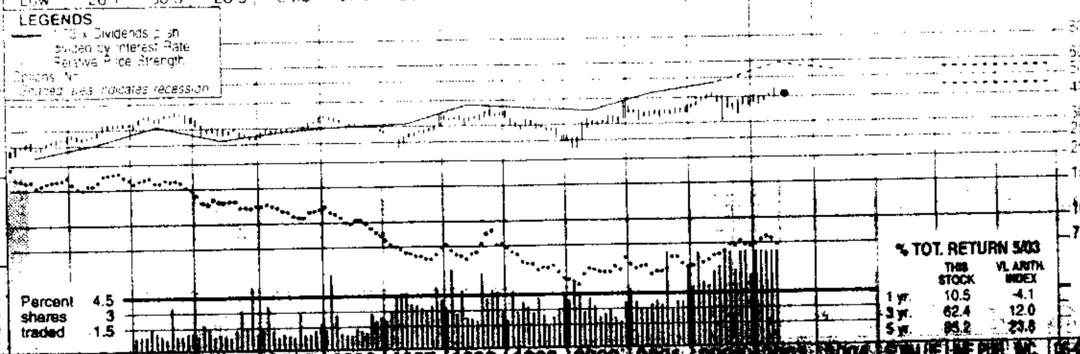
RECENT PRICE 41.35 | P/E RATIO 14.5 (Trailing: 14.9; Median: 13.0) | RELATIVE P/E RATIO 0.87 | DIV'D YLD 5.3% | VALUE LINE 717

TIMELINESS 3 Raised 11/8/02
SAFETY 2 Lowered 4/4/03
TECHNICAL 3 Lowered [illegible]
BETA [illegible] (1.00 = Market)

High	32.3	36.5	33.6	34.3	34.[illegible]	34.3	37.5	35.8	39.0	36.8	42.7	44.3
Low	26.1	30.3	26.3	26.8	[illegible]	23.4	29.9	24.4	22.6	31.0	30.5	36.8

Target Price Range 2006 2007 2008

LEGENDS
— [illegible] x Dividends p sh divided by Interest Rate
··· Relative Price Strength
Options: No
Shaded area indicates recession



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+35%)	12%
Low	45	(+10%)	7%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	1	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	70	54	69
to Sell	45	56	59
Hld's(000)	11636	11078	11182

Percent shares traded 4.5 / 3 / 1.5

% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	10.5	-4.1
3 yr.	62.4	12.0
5 yr.	85.2	23.8

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
25.02	26.05	25.59	25.73	27.24	26.62	28.46	28.20	30.12	35.91	36.76	40.06	40.91	72.68	85.80	[illegible]	[illegible]	[illegible]	Revenues per sh	96.70
4.95	5.69	4.79	4.80	5.03	5.08	5.00	4.56	5.06	4.71	5.37	5.01	5.34	6.11	5.27	[illegible]	[illegible]	[illegible]	"Cash Flow" per sh	8.55
2.11	2.28	1.98	2.00	2.23	2.35	2.47	2.21	2.32	2.00	2.13	1.76	2.24	2.43	2.74	2.74	2.85	2.95	Earnings per sh A	3.15
1.52	1.56	1.60	1.64	1.68	1.72	1.76	1.80	1.84	1.88	1.92	1.96	2.00	2.04	2.08	2.12	2.16	2.20	Div'd Decl'd per sh B■	2.32
2.70	2.83	3.17	2.68	2.84	3.99	2.87	2.87	3.35	3.55	2.44	3.57	4.93	5.94	7.98	7.16	5.70	5.65	Cap'l Spending per sh	4.85
15.52	16.00	16.30	16.26	16.13	17.33	18.18	18.69	19.39	19.56	20.00	19.48	19.97	20.21	22.96	24.45	26.70	27.60	Book Value per sh C	30.95
23.20	23.20	22.89	22.89	22.89	23.85	23.90	23.90	23.90	23.90	23.90	26.55	26.85	26.85	31.18	32.01	35.00	35.30	Common Shs Outst'g D	38.20
11.0	9.8	11.4	11.0	11.3	12.6	13.7	13.0	12.8	15.7	13.1	18.9	13.2	12.2	12.5	14.6	Bold figures are		Avg Ann'l P/E Ratio	16.0
.74	.80	.86	.82	.72	.76	.81	.85	.86	.98	.76	.98	.75	.79	.64	.76	Value Line		Relative P/E Ratio	1.05
6.5%	7.1%	7.1%	7.4%	6.6%	5.8%	5.2%	6.2%	6.2%	6.0%	6.9%	5.9%	6.7%	6.9%	6.1%	5.5%	estimates		Avg Ann'l Div'd Yield	4.8%
						680.6	673.8	719.6	858.3	878.3	1063.7	1098.5	1951.6	2675.5	2674.9	3400	3280	Revenues ($mill)	3500
						62.2	55.8	58.5	50.5	54.0	49.8	62.7	67.4	80.7	94.4	100	110	Net Profit ($mill)	120
						34.7%	34.6%	34.5%	32.5%	34.0%	32.3%	32.2%	6.7%	5.6%	20.6%	21.0%	21.0%	Income Tax Rate	21.0%
						.8%	.4%	.4%	.5%	.4%	--	--	--	--	3.2%	3.0%	3.0%	AFUDC % to Net Profit	3.0%
						39.3%	38.4%	37.3%	37.1%	36.5%	35.7%	47.8%	50.6%	47.1%	48.3%	47.5%	46.5%	Long-Term Debt Ratio	48.5%
						54.3%	55.3%	56.4%	56.7%	57.4%	53.8%	43.9%	41.6%	46.3%	45.8%	47.5%	48.5%	Common Equity Ratio	49.0%
						799.9	807.7	821.2	824.5	833.0	961.4	1222.0	1303.9	1544.8	1706.3	1975	2015	Total Capital ($mill)	2240
						843.9	863.8	870.1	892.9	886.4	820.1	863.7	905.1	1463.6	1610.2	1705	1780	Net Plant ($mill)	1950
						9.3%	8.4%	8.5%	7.4%	7.8%	6.4%	6.2%	6.8%	6.8%	7.0%	6.5%	7.0%	Return on Total Cap'l	7.0%
						12.8%	11.2%	11.4%	9.7%	10.2%	8.0%	9.8%	10.5%	9.9%	10.7%	9.5%	10.5%	Return on Shr. Equity	10.0%
						13.5%	11.8%	11.9%	10.1%	10.6%	9.0%	11.1%	11.9%	10.8%	11.7%	10.0%	10.5%	Return on Com Equity D	10.5%
						3.9%	2.2%	2.5%	.5%	1.0%	NMF	1.2%	1.9%	2.7%	3.1%	2.5%	2.5%	Retained to Com Eq	2.5%
						73%	83%	81%	95%	91%	102%	85%	80%	76%	74%	77%	76%	All Div'ds to Net Prof	75%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $864.3 mill. Due in 5 Yrs $119.8 mill.
LT Debt $814.9 mill. LT Interest $52.2 mill.
(LT interest earned: 3.8x)
Pension Assets-12/02 $511.6 mill. **Oblig.** $534.1 mill.
Pfd Stock $101.1 mill. Pfd Div'd $6.5 mill.
512,000 shs. 5.00% to 6.88%, callable $101 to $107.50; sinking fund began 11/1/79. All cumulative, $100 par.
Incl. $50 mill. in 7% trust pfd. sec's. ('38), redeemable after 7/30/03. $25 par.
Common Stock 32,217,120 shs. as of 4/30/03
MARKET CAP: $1.3 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+4.1	+1.6	+3.6
Avg. Indust. Use (MWH)	18302	17727	16982
Avg. Indust. Revs. per KWH (¢)	3.26	3.10	3.72
Capacity at Peak (Mw)	1957	1978	1947
Peak Load, Summer (Mw)	1793	2173	1947
Annual Load Factor (%)	80.1	70.6	74.5
% Change Customers (yr-end)	+1.7	+1.5	+1.7
Fixed Charge Cov. (%)	196	173	[illegible]

ANNUAL RATES [illegible]

[illegible]	[illegible]	[illegible]	[illegible]

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	[illegible]	374.7	458.6	719.4	1951.6
2001	[illegible]	577.2	517.1	583.8	2675.5
2002	671.3	579.4	609.6	814.6	2674.9
2003	1283.3	620	650	846.7	3400
2004	[illegible]	640	670	870	3280

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	1.10	.33	.49	.51	2.43
2001	.89	.41	.76	.70	2.74
2002	.89	.36	.77	.72	2.74
2003	.92	.40	.80	.73	2.85
2004	.95	.42	.82	.76	2.95

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.495	.495	.505	.505	2.00
2000	.505	.505	.515	.515	2.04
2001	.515	.515	.525	.525	2.08
2002	.525	.525	.535	.535	2.12
2003	.535	.535			

BUSINESS: WPS Resources Corporation is a holding company for subsidiaries that provide products and services in both regulated and nonregulated energy markets. Acq'd Upper Peninsula Energy 9/98. 2002 revenues: electric, 26%; gas, 10%; nonregulated energy and other, 64%. Electric revenue breakdown, '02: residential, 36%; commercial and industrial, 50%; other, 14%. Generating sources, '02: coal, 56%; nuclear, 19%; hydro, 2%; other and purchased, 23%. Fuel costs: 40% of revenues. '02 deprec. rate: 3.2%. Est'd plant age: 16 years. Has 2,963 employees, 22,768 common stockholders. Chairman, President & CEO: Larry L. Weyers. Incorporated: WI. Address: 700 N. Adams Street, Green Bay, WI 54307. Telephone: [illegible]. Internet: www.wpsr.com.

WPS Resources' utility subsidiary is adding capacity to cover rising cus-[illegible] demand and to [illegible] [illegible] It recently installed [illegible] (mw) gas-fired facility at the [illegible] site and will sell the plant's output to its Upper Peninsula Power subsidiary in the summer months of high energy usage. It also contracted to buy 150 mw from Calpine in 2005, and will increase the purchase to 235 mw yearly from 2006 to 2015, at a cost of $250 million over the 10-year period. WPS will supply the fuel under a tolling arrangement. For the longer term, the company expects to file for the right to build a 500-mw coal-fired unit at an estimated cost of $650 million to $700 million. The plant is targeted to begin operation in 2008. Its location at the existing Weston station will eliminate the need for a new transmission line.

Several rate cases are outstanding. In Wisconsin, the company seeks higher electric rates of $92 million and a $17 million boost in gas tariffs for general improvements to the infrastructure and increased medical costs. Too, it filed for a $1.4 million increase in electric base rates in Michigan [illegible] The company also asked the Federal [illegible] Regulatory Commission for [illegible] increase in wholesale electric [illegible] orders [illegible] published until late this year, [illegible] won't be felt until 2004.

We look for modest earnings growth in 2003. A full year of the June, 2002 rate hike in Wisconsin and a probable rise in retail energy sales are pluses. But these gains will be partly offset by a refueling outage at the Kewaunee nuclear plant (the plant had no downtime in 2002) and higher employee benefits. All told, we estimate a 4% increase in 2003 earnings, to $2.85 a share. Higher electric and gas rates point to improved results next year.

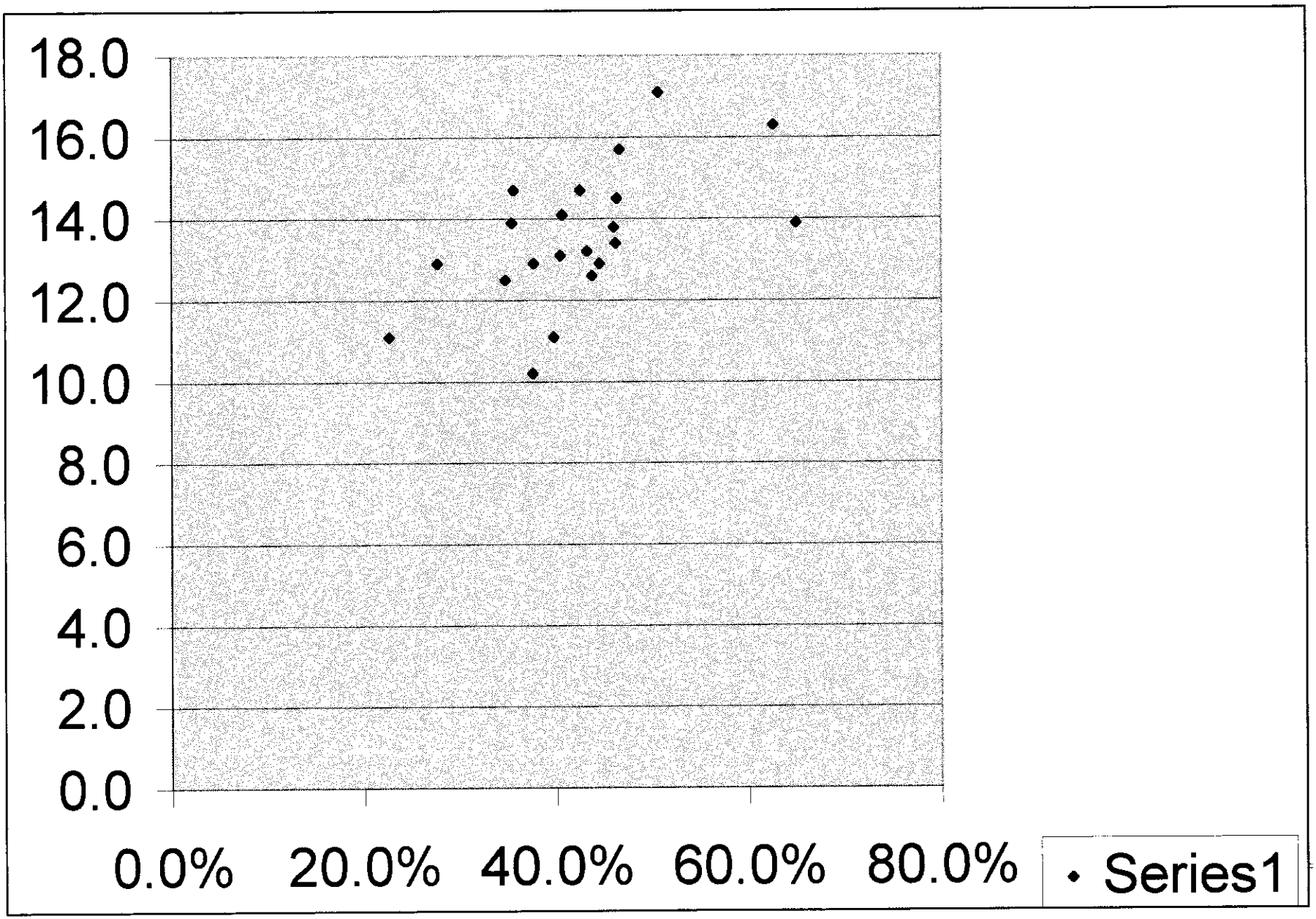
The stock offers an above-average yield. Moreover, dividend growth prospects to 2006-2008 are about double those of the group. These shares might interest income-oriented investors.

Arthur H. Medalie *July 4, 2003*

(A) Diluted EPS. Excl. n/r gains: '97, 12¢; '00, 10¢; '02, 68¢; '03, 10¢. Next egs. report due late July. '01 egs. don't add due to chg. no. shs. (B) Div'ds historically paid in late Mar., late June, late Sept., and late Dec. ■ Div'd reinvestment plan available. (C) Incl. intangibles. In '02, $246.2 mill., $7.65/sh. (D) Rate base determination: Net orig. cost. Rate allowed in Wisc. on com. equity in '03: 12.0%; earned on avg. com. equity, '02: 12.5%. Reg. Climate: Above Avg.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	25
Earnings Predictability	80

Item 3, page 22



Item 3, page 23

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

4. In reference to Dr. Weaver's discussion of a 50 percent target equity ratio and a 52.5 percent cap on page 8 of his testimony:

a. Does Dr. Weaver also recommend that if the equity ratio drops below 47.5 percent, it should be resent at 50.0 percent?

b. If the answer to (a) is negative, provide an explanation of why Dr. Weaver would not make such a recommendation.

c. If the answer to (a) is negative, wouldn't asymmetry in his proposal increase the Companies' risk? If not, why not.

Answer:

a. No. The control of the capital structure at or below the 50% equity level should be a management prerogative.

b. See response to a.

c. Financial risk would increase as the proportion of equity is lower. The company's management should be aware of this fact. However, they may possess information about the cost and benefit phenomenon that is not known by the Commission and would cause them to prudently choose an equity ratio below 47.5%. An example of such an opportunity would be access to debt that has a cost rate that is a bargain.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

5. In reference to the "Percent Electric Revenues" shown on Schedule 12:
a. Specify what year these data reflect.
b. Specify what financial data are reflected in the denominator of this ratio.
c. Provide, for each company in the two comparison groups the electric revenues and the data that make up the denominator in this ratio.
d. Provide, for KU and LG&E, the electric revenues and the data that make up the denominator in this ratio.

Answer:

a. Refer to the next to the last column in Schedule 12. "CD" indicates that the data source was Compact Disclosure. The CD, as indicated in the footnote to Schedule 12, was from the August 2003 disc. Constellation was incorrectly labeled. Its source was VL. It reflects 2001 data. Progress was also labeled incorrectly. Its source was CD. As indicated in the footnote to Schedule 12, the LG&E and KU data were from the FERC Form 1 and reflect 2002 data.

b. The VL data was compiled by Value Line analysts and is assumed to be accurate. The CD data was compiled from the company's description or the segment data obtained from each company's 10-K report to the SEC.

c. Attached are printouts of the CD data from which show the electric revenues and the denominator revenues used for the calculation. They are:

	Numerator	Denominator	Percent
Constellation	From Value Line		
Progress	6,600,689	8,063,505	82
Empire	In summary description		
PNM Resources	From Value Line		
DTE	12,934,000	15,955,000	81
MGE	224,987	351,626	64
Cinergy	From Value Line		
Southern	In business summary description		
FPL Group	7,378,000	8,311,000	89

d. KU – 888,219,072 / 888,219,072 = 100%
LG&E - 758,490,551 / 1,026,183,706 = 73.9%

CONSTELL'N EGY GP. NYSE-CEG

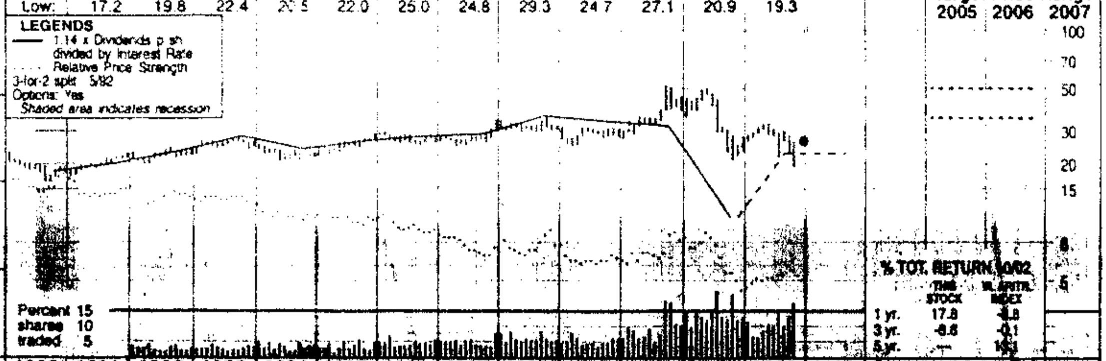
RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
26.31	10.4 (Trailing: 13.0; Median: 14.0)	0.66	3.9%	159

TIMELINESS 3 Raised 6/7/02
SAFETY 2 Lowered 3/20/92
TECHNICAL 3 Lowered 10/11/02
BETA .75 (1.00 = Market)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
High:	22.8	24.4	27.5	25.5	29.0	29.5	34.3	35.3	31.5	52.1	50.1
Low:	17.2	19.8	22.4	20.5	22.0	25.0	24.8	29.3	24.7	27.1	20.9

	High	Low
2002	32.4	19.3

LEGENDS
— 1.14 x Dividends p sh divided by Interest Rate
···· Relative Price Strength
3-for-2 split 5/92
Options: Yes
Shaded area indicates recession



Target Price Range 2005 2006 2007

2005-07 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+90%)	20%
Low	35	(+35%)	11%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	2	0	0	0	0	0	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	4Q2001	1Q2002	2Q2002
to Buy	120	138	140
to Sell	152	120	106
Hld's(000)	97854	100980	106789

Percent shares traded 15 10 5

% TOT. RETURN 10/02

	THIS STOCK	VL ARITH. INDEX
1 yr.	17.8	[illegible]
3 yr.	-8.8	-0.1
5 yr.	—	[illegible]

1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	© VALUE LINE PUB., INC.	05-07
15.55	15.28	15.67	16.63	17.81	19.41	17.83	18.27	18.85	19.89	21.35	22.40	22.50	25.32	25.77	24.00	[illegible]	[illegible]	Revenues per sh	36.40
3.75	3.84	3.98	3.45	2.91	3.08	3.10	3.45	3.93	4.59	4.45	4.86	4.93	6.57	5.78	[illegible]	[illegible]	[illegible]	"Cash Flow" per sh	7.45
[illegible]	2.81	2.31	2.08	1.40	1.52	1.83	1.85	1.88	2.02	1.85	1.97	2.06	2.18	2.30	2.20	2.30	2.70	Earnings per sh A	[illegible]
[illegible]	1.25	1.32	1.36	1.40	1.40	1.43	1.47	1.51	1.55	1.59	1.63	1.67	1.68	1.68	[illegible]	[illegible]	[illegible]	Div'd Decl'd per sh B■	[illegible]
[illegible]	2.74	3.06	4.05	4.42	3.80	2.71	3.27	3.27	2.48	2.44	2.53	2.27	2.92	7.17	8.05	[illegible]	3.30	Cap'l Spending per sh	3.70
13.82	14.83	15.86	16.60	17.10	17.09	17.88	17.94	18.42	19.07	19.35	19.44	19.88	20.01	[illegible]	[illegible]	[illegible]	[illegible]	Book Value per sh C	32.65
117.98	116.37	118.95	120.52	121.21	126.69	143.78	146.03	147.53	147.53	147.57	147.57	149.25	149.56	[illegible]	[illegible]	[illegible]	[illegible]	Common Shs Outst'g E	169.00
10.0	9.1	9.1	10.4	13.7	13.2	13.8	13.8	11.8	12.4	14.7	14.0	15.3	13.2	15.8	18.4	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	11.8
.68	.61	.76	.79	1.02	.84	.82	.82	.77	.83	.92	.81	.80	.75	1.03	.94			Relative P/E Ratio	.75
5.7%	6.0%	6.3%	6.8%	7.8%	7.0%	6.5%	5.8%	6.6%	6.2%	5.8%	5.9%	5.3%	5.8%	4.6%	1.5%			Avg Ann'l Div'd Yield	3.1%

CAPITAL STRUCTURE as of 9/30/02
Total Debt $5040.4 mill. Due in 5 Yrs $2625 mill.
LT Debt $4391.7 mill. LT Interest $310.0 mill.
(LT interest earned: 3.5x)
Pension Liability None
Pfd Stock $190.0 mill. Pfd Div'd $13.2 mill.
Incl. 400,000 shs. 7.125% preference, callable 7/1/03; 500,000 shs. 6.97% pref., call. 10/1/03; 400,000 shs. 6.70% pref., call. 1/1/04; 600,000 shs. 6.99% pref., call. 10/1/05; all $100 par, not subj. to mand. redemption.
Common Stock 164,737,286 shs. as of 10/31/02
MARKET CAP: $4.3 billion (Mid Cap)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003		05-07
2491.3	2868.7	2783.0	2934.8	3153.2	3307.8	3358.1	3786.2	3878.5	3928.3	[illegible]	4700	Revenues ($mill)	6150
264.3	309.9	323.6	338.0	310.8	320.3	327.7	339.9	[illegible]	[illegible]	[illegible]	460	Net Profit ($mill)	665
28.1%	30.8%	32.2%	33.4%	34.9%	35.8%	35.2%	35.4%	[illegible]	34.6%	35.0%	[illegible]	Income Tax Rate	37.5%
8.3%	7.3%	10.4%	6.5%	8.3%	5.2%	4.1%	2.9%	[illegible]	15.7%	12.5%	11.0%	AFUDC % to Net Profit	[illegible]
43.4%	47.1%	44.6%	43.9%	46.3%	46.5%	49.7%	44.7%	[illegible]	40.2%	51.0%	[illegible]	Long-Term Debt Ratio	[illegible]
46.3%	43.7%	46.9%	47.5%	47.9%	46.8%	47.3%	52.0%	48.5%	57.0%	47.0%	48.0%	Common Equity Ratio	52.5%
5478.3	5995.3	5791.5	5822.1	5960.4	6159.3	6299.6	6758.4	6602.3	6748.1	[illegible]	9025	Total Capital ($mill)	10535
4966.3	5196.9	5416.8	5497.6	5582.4	5651.5	5658.7	6523.1	6644.0	7700.4	8000	8350	Net Plant ($mill)	9515
6.6%	6.9%	7.2%	7.3%	6.7%	6.8%	6.9%	7.5%	7.1%	6.5%	6.5%	7.0%	Return on Total Cap'l	8.0%
8.5%	9.8%	10.1%	10.2%	9.7%	10.1%	10.3%	10.7%	10.7%	9.1%	9.5%	10.0%	Return on Shr. Equity	11.5%
8.8%	10.2%	10.4%	10.6%	9.6%	10.1%	10.3%	10.9%	11.0%	9.2%	9.5%	10.5%	Return on Com Equity D	11.5%
1.3%	2.1%	2.3%	2.5%	1.4%	1.8%	2.0%	2.5%	3.0%	6.0%	5.5%	6.5%	Retained to Com Eq	7.5%
88%	82%	80%	79%	87%	84%	81%	78%	74%	37%	44%	40%	All Div'ds to Net Prof	37%

ELECTRIC OPERATING STATISTICS

	1999	2000	2001
% Change Retail Sales (KWH)	+1.7	+3.2	+.4
Avg. Indust. Use (MWH)	926	895	889
Avg. Indust. Revs. per KWH (¢)	4.70	4.55	4.91
Capacity at Peak (Mw)	6522	6550	9188
Peak Load, Summer (Mw)	6383	N/A	6490
Annual Load Factor (%)	55.7	60.6	N/A
% Change Customers (yr-end)	+1.2	+1.2	+.8
Fixed Charge Cov. (%)	283	295	288

ANNUAL RATES of change (per sh) — 10 Yrs. / 5 Yrs. / Est'd '99-'01 to '05-'07
Revenues [illegible]
"Cash Flow" [illegible]
Earnings [illegible]
Dividends [illegible]
Book Value [illegible] 2.5% [illegible]

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	[illegible]	[illegible]	970.4	1005.5	[illegible]
2000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2001	1165.1	[illegible]	1036.1	901.1	3928.3
2002	1043.0	1011.8	1270.3	1118.9	4450
2003	1125	1065	1335	1175	4700

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.55	.45	.91	.27	2.18
2000	.48	.26	.98	.58	2.30
2001	.69	.48	1.00	.09	2.20
2002	.40	.51	1.02	.37	2.30
2003	.58	.55	1.07	.50	2.70

Calendar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	.41	.41	.42	.42	1.66
1999	.42	.42	.42	.42	1.68
2000	.42	.42	.42	.42	1.68
2001	.42	.12	.12	.12	.78
2002	.12	.24	.24	.24	

BUSINESS: Constellation Energy Group, a holding company, sells electricity (52% of revenues) and gas (17%) service, through Baltimore Gas and Electric, in central Maryland to a population of 2.6 million. The remaining 31% of revenues are derived from the nonregulated business, Constellation Enterprises. 2001 electric revenue sources: residential, 43.4%; commercial, 44.3%; industrial, 10.7%; other, 1.6%. '01 gas revenue sources: resid'l, 58.0%; com'l, 20.1%; ind'l, 3.9%; other, 18.0%. Prime fuels: coal, 52.5%; nuclear, 40.9%; other, [illegible]. Has about [illegible] employees, 63,435 stockholders. [illegible] Chairman, President & CEO: [illegible]. Inc.: MD. Addr.: [illegible] Baltimore, MD [illegible]. Tel.: [illegible]. Internet: www.constellationenergy.com.

Attentive management is enabling Constellation Energy Group to improve its earnings. Despite difficulties in the broader power sector, both CEG's merchant and regulated utility businesses have performed well this year. The acquisition of Nine Mile Point nuclear plant in [illegible] 2001, a successful power [illegible] hedging strategy, and conservative energy trading helped the Constellation Energy Source unit overcome the negatives of reduced electricity prices and higher fuel costs. Its earnings shortfall through the first nine months of 2002 was limited to just a few cents per share. Continued tight monitoring of merchant activities and asset diversification efforts, along with the recent purchase of AES's NewEnergy marketing unit, suggest steady, positive net-income matchups through the end of 2003. CEG's regulated utility, the Baltimore Gas & Electric Co., benefited from warm summer weather, more than offsetting lower energy delivery earnings earlier this year. Staff reductions and other productivity improvements should lend notable support to share net next year.

The company's liquidity position is [illegible] net liquidity [illegible] billion. [illegible] commitments, charges, increased pension funding, and gains, losses, and impairments on certain assets, the company's debt-to-total capital ratio should come in close to 51% at the end of 2002, which is on a par with the industry average.

CEG stock offers decent total returns to 2005-2007, with limited risk. Over that period, we look for earnings growth to outpace that of most other electric utilities and the annual dividend to advance ahead of the sector average. We base this assumption primarily on a stable regulated electric and gas utility business and an expanding asset-backed merchant operation.

David M. Reimer *December 6, 2002*

(A) Basic egs. Excl. extra. items: '99, d44¢; '01, d$1.68; '02, 90¢. Incl. real estate, fin'l invest., and venture chgs: '98, 7¢; '99, 27¢; '02, 1¢. '01 eps do not add due to change in share count. Next egs. rpt due late Jan. (B) Next div'd mtg mid-Feb; ex date early Mar. Div'd pmt. dates early Jan., Apr., July, Oct. ■ Div'd reinvest. plan. (C) Incl. def'd chgs. '01: $3.62/sh. (D) Rate base: fair val. Rate all'd on com. eq.: 11.75%-elec. ('93); 11.05%-gas ('99). Earned on '01 avg. com. eq.: 10.3%. Reg. Clim.: Avg. (E) In mill., adj'd for split. Excl. ESOP shares.

Company's Financial Strength	A
Stock's Price Stability	75
Price Growth Persistence	30
Earnings Predictability	65

Item 5, page 2

26

PROGRESS ENERGY INC

DESCRIPTION OF BUSINESS: THE GROUP'S PRINCIPAL ACTIVITIES ARE THE GENERATION, TRANSMISSION, DISTRIBUTION AND SALE OF ELECTRICITY AND NATURAL GAS IN PORTIONS OF NORTH AND SOUTH CAROLINA AND FLORIDA. THE GROUP IS ALSO INTO THE BUSINESS OF TELECOMMUNICATION SERVICES, COAL AND SYNTHETIC FUEL OPERATIONS, ENERGY MANAGEMENT AND MERCHANT ENERGY GENERATION. THE GROUP'S BUSINESS SEGMENTS ARE ELECTRIC UTILITIES, PROGRESS VENTURES AND RAIL SERVICES. THE ELECTRIC UTILITY ENCOMPASSES ALL REGULATED UTILITY OPERATIONS. PROGRESS VENTURES INCLUDE FUEL EXTRACTION, MANUFACTURING AND DELIVERY, SYNTHETIC FUELS PRODUCTION, MERCHANT GENERATION AND ENERGY MARKETING. RAIL SERVICES INCLUDE RAILCAR REPAIR, RAIL PARTS RECONDITIONING AND SALES AND OTHER RAIL RELATED SERVICES.IN 2002, THE GROUP ACQUIRED WALTON COUNTY POWER, LLC, WASHINGTON COUNTY POWER, LLC AND WESTCHESTER GAS COMPANY . ELECTRIC OPERATIONS ACCOUNTED FOR 82% OF 2002 REVENUES; RAIL SERVICES, 9% AND PROGRESS VENTURES, 9%. [redacted]

SEGMENT DATA (SOURCE: 10-K 12/31/2002)	SALES (000S)	OP INCOME
CP&L ELECTRIC	3,538,957	453,115
FLORIDA POWER ELECTRIC	3,061,732	309,594
PROGRESS VENDURES	748,317	271,088
RAIL SERVICES	714,499	-41,733

4,600,689

8063505

81.8

FIVE YEAR SUMMARY

DATE	SALES (000$)	NET INCOME	EPS
2002	7,945,120	528,386	2.43
2001	8,085,380	541,610	2.65
2000	3,768,922	478,361	3.04
1999	3,264,957	379,288	2.56
1998	3,211,552	396,271	2.75
GROWTH RATE	25.4	7.4	-3.0

PRELIMINARY EARNINGS DATA

ITEMS	VALUES	PERIOD	NEWS DATE
Basic EPS	1.54	6M	07/25/2003
Fully Diluted EPS	1.53	6M	07/25/2003
Common Shares Outstanding	239,816,121	1Q	05/15/2003
Net Sales	2,012,684,000	2Q	07/25/2003
Operating Profit	358,940,000	1Q	05/15/2003
Pre-Tax Income	111,136,000	2Q	07/25/2003
Net Income	152,823,000	2Q	07/25/2003
Total Current Assets	2,827,752,000	1Q	05/15/2003
Total Assets	23,172,892,000	1Q	05/15/2003
Total Current Liabilities	3,030,670,000	1Q	05/15/2003
Stockholder's Equity	6,232,890,000	3Q	11/20/2002
Book Value per Common Shr	29.36	2Q	07/25/2003
Pre-Tax Extra Gain(Loss)	-224,800,000	9M	11/20/2002
Gain(Loss) due to Acct Chng	2,513,000	2Q	07/25/2003
WtdAvg ComStock(Basic)	233,438,000	1Q	05/15/2003
WtdAvg ComStock(Fully Diluted)	234,369,000	1Q	05/15/2003

24

EMPIRE DISTRICT ELECTRIC CO

DESCRIPTION OF BUSINESS: THE GROUP'S PRINCIPAL ACTIVITIES ARE TO GENERATE, PURCHASE, TRANSMIT, DISTRIBUTE AND SELL ELECTRICITY IN PARTS OF MISSOURI, KANSAS, OKLAHOMA AND ARKANSAS. THE GROUP ALSO PROVIDES WATER SERVICE TO THREE TOWNS IN MISSOURI. THE GROUP PROVIDES ELECTRIC SERVICE AT RETAIL TO 119 INCORPORATED COMMUNITIES AND TO VARIOUS UNINCORPORATED AREAS AND AT WHOLESALE TO FOUR MUNICIPALLY-OWNED DISTRIBUTION SYSTEMS AND TWO RURAL ELECTRIC COOPERATIVES. THE GROUP OPERATES UNDER FRANCHISES HAVING ORIGINAL TERMS OF TWENTY YEARS OR LONGER IN VIRTUALLY ALL OF THE INCORPORATED COMMUNITIES. THE GROUP ALSO OFFERS ELECTRONIC MONITORED SECURITY SERVICES, GENERATORS, SURGE SUPPRESSORS, DECORATIVE LIGHTING AND OTHER ENERGY SERVICES. ON 01-FEB-2003, THE GROUP ACQUIRED JOPLIN.COM HOLDINGS, INC. ELECTRICITY SALES ACCOUNTED FOR 96% OF 2002 REVENUES; NON-REGULATED INCOME, 3% AND WATER SUPPLY, 1%.

FIVE YEAR SUMMARY

DATE	SALES (000$)	NET INCOME	EPS
2002	305,903	25,524	1.19
2001	265,821	10,403	0.59
2000	261,691	23,617	1.35
1999	243,243	22,170	1.13
1998	239,858	28,323	1.53
GROWTH RATE	6.2	-2.5	-6.0

PRELIMINARY EARNINGS DATA

ITEMS	VALUES	PERIOD	NEWS DATE
Basic EPS	0.27	1Q	04/30/2003
Primary EPS	0.28	4Q	01/22/1998
Primary EPS	1.29	12M	01/22/1998
Fully Diluted EPS	0.27	1Q	04/30/2003
Common Shares Outstanding	22,684,051	1Q	05/27/2003
Net Sales	76,906,000	1Q	04/30/2003
Operating Profit	14,185,000	1Q	05/27/2003
Pre-Tax Income	9,403,000	1Q	05/27/2003
Net Income	12,786,000	9M	05/26/2003
Total Current Assets	75,758,365	1Q	05/27/2003
Total Assets	982,021,501	1Q	05/27/2003
Total Current Liabilities	85,156,244	1Q	05/27/2003
Stockholder's Equity	331,686,614	1Q	05/27/2003
WtdAvg ComStock(Basic)	22,607,643	1Q	05/27/2003
WtdAvg ComStock(Primary)	16,729,279	4Q	01/22/1998
WtdAvg ComStock(Primary)	16,599,269	12M	01/22/1998
WtdAvg ComStock(Fully Diluted)	22,607,643	1Q	05/27/2003

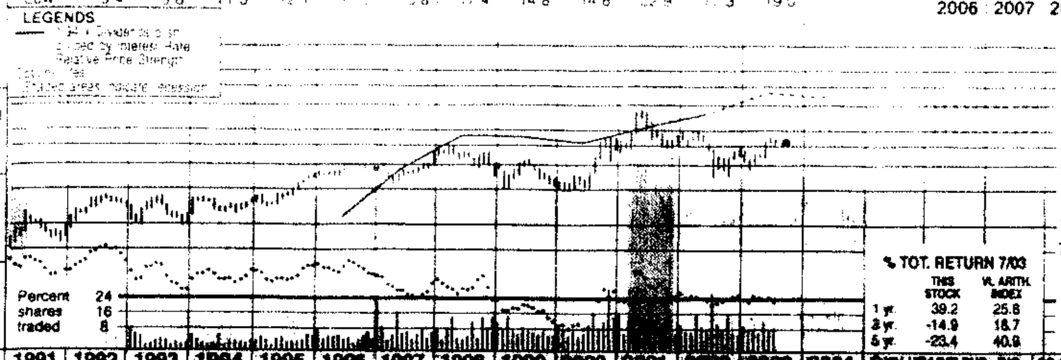
PNM RESOURCES NYSE-PNM

RECENT PRICE	P/E RATIO	(Trailing / Median)	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
26.20	13.8	(Trailing: 15.7 / Median: 9.5)	0.81	3.6%	1785

TIMELINESS 4 Raised 10/4/02
SAFETY 2 Raised 8/16/02
TECHNICAL 3 Raised 7/18/03
BETA .70 (1.00 = Market)

High	14.1	13.9	13.6	16.3	[illegible]	23.7	24.8	21.5	28.3	37.8	30.8	27.8
Low	9.4	9.8	11.0	12.1	[illegible]	15.8	17.4	14.8	14.6	22.9	17.3	19.0

Target Price Range 2006 2007 2008



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+55%)	14%
Low	30	(+15%)	7%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	0	0	0	0	1	0	0
Options	0	0	0	0	0	0	0	0	2
to Sell	0	0	0	0	0	0	1	0	2

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	73	67	76
to Sell	64	49	52
Hld's(000)	33059	33424	33560

% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	39.2	25.8
3 yr.	-14.9	18.7
5 yr.	-23.4	40.9

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
[illegible]	20.15	21.91	20.47	20.52	20.40	20.92	21.66	19.35	21.15	27.18	26.15	28.44	41.19	60.13	29.86	36.30	36.80	Revenues per sh	39.80
[illegible]	4.15	3.85	2.46	2.65	3.14	3.51	3.83	3.57	3.91	3.86	4.57	4.22	4.73	6.46	4.25	4.50	4.75	"Cash Flow" per sh	5.20
2.00	1.97	1.73	.32	.32	.75	1.21	1.66	1.37	1.72	1.88	2.25	1.93	2.32	3.92	1.61	1.90	2.00	Earnings per sh A	2.15
2.92	1.87	.38	--	--	--	--	--	--	.36	.63	.77	.80	.80	.80	.86	.91	.95	Div'd Decl'd per sh B■	1.07
2.24	2.87	1.77	1.95	1.91	2.27	2.41	2.86	2.55	2.13	3.07	3.08	2.34	3.75	6.77	6.14	3.90	3.85	Cap'l Spending per sh	3.55
25.08	18.03	18.02	17.36	17.69	15.00	13.29	15.11	16.83	18.06	19.26	20.63	22.11	23.64	25.87	24.90	25.95	27.00	Book Value per sh C	30.20
41.73	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	40.70	39.12	39.12	39.12	40.20	40.20	Common Shs Outst'g D	40.20
16.2	7.9	7.8	34.7	29.1	16.5	9.5	7.5	10.6	11.0	10.0	9.8	9.5	8.5	7.3	15.1	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	16.5
1.02	.66	.59	2.58	1.86	1.00	.56	.49	.71	.68	.58	.51	.54	.55	.37	.82			Relative P/E Ratio	1.10
8.6%	12.8%	2.8%	--	--	--	--	--	--	1.9%	3.3%	3.5%	4.4%	4.1%	2.8%	3.5%			Avg Ann'l Div'd Yield	3.1%
						873.9	904.7	808.5	863.4	1135.3	1092.4	1157.5	1611.3	2352.1	1169.0	1460	1480	Revenues ($mill)	1600
						57.6	75.7	60.9	72.6	79.3	105.2	79.9	92.7	156.3	64.3	75.0	80.0	Net Profit ($mill)	85.0
						30.9%	36.9%	45.5%	35.2%	37.1%	34.9%	34.8%	44.5%	34.2%	24.5%	25.0%	25.0%	Income Tax Rate	25.0%
						.7%	.4%	--	--	--	--	--	--	--	--	--	--	AFUDC % to Net Profit	--
						60.0%	51.5%	50.5%	48.2%	46.6%	53.2%	52.0%	50.4%	48.2%	49.8%	48.0%	47.0%	Long-Term Debt Ratio	44.5%
						34.8%	43.2%	48.7%	50.9%	52.5%	45.4%	47.3%	48.9%	51.1%	49.5%	51.0%	52.0%	Common Equity Ratio	55.0%
						1596.4	1460.5	1444.5	1481.0	1531.2	1896.4	1901.2	1891.3	1978.7	1986.9	2035	2080	Total Capital ($mill)	2205
						1703.9	1696.7	1574.4	1552.7	1573.2	1593.8	1582.4	1817.3	1781.0	1867.3	1915	1945	Net Plant ($mill)	2015
						5.9%	7.4%	6.2%	6.6%	6.7%	6.9%	5.9%	6.6%	9.5%	4.7%	5.0%	5.5%	Return on Total Cap'l	5.0%
						9.0%	10.7%	8.5%	9.5%	9.7%	11.8%	8.8%	9.9%	15.3%	6.5%	7.0%	7.5%	Return on Shr. Equity	7.0%
						9.2%	11.0%	7.9%	9.5%	9.8%	12.1%	8.8%	10.0%	15.4%	6.5%	7.0%	7.5%	Return on Com Equity E	7.0%
						9.2%	11.0%	7.9%	7.6%	6.5%	8.4%	5.2%	6.5%	12.3%	3.1%	4.0%	4.0%	Retained to Com Eq	3.5%
						11%	8%	8%	21%	34%	31%	42%	35%	20%	53%	48%	48%	All Div'ds to Net Prof	50%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $1150.1 mill. Due in 5 Yrs $448.0 mill.
LT Debt $980.1 mill. LT Interest $58.4 mill.
(LT interest earned: 2.3x)

Pension Assets-12/02 $319.1 mill. Oblig. $426.9 mill.

Pfd Stock $12.8 mill. Pfd Div'd $.6 mill.
[illegible],000 shs. 4.58%, $100 par w/o mandatory redemption.
Sinking fund began 2/1/84.

Common Stock 39,117,799 shs. as of 5/1/03
MARKET CAP: $1.0 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
[illegible] Retail Sales (KWH)	+4.2	+2.3	+2.1
[illegible] Use (MWH)	4163	4252	5186
[illegible] Revs. per KWH (¢)	5.16	5.16	5.16
[illegible] Peak (Mw)	1521	1521	1742
[illegible] Summer (Mw)	1368	1397	1456
[illegible] Factor (%)	66.6	69.9	67.5
[illegible] Customers (yr-end)	+2.0	+2.4	+1.5
[illegible] (%)	268	481	177

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
[illegible]	8.0%	14.0%	7.5%
[illegible]	6.5%	6.5%	Nil
[illegible]	19.0%	9.5%	3.5%
[illegible]	--	20.0%	4.5%
[illegible]	4.0%	6.5%	3.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
[illegible]	321.3	329.0	499.5	461.5	1611.3
[illegible]	736.5	666.1	621.9	327.6	2352.1
[illegible]	314.0	264.6	289.4	301.0	1169.0
[illegible]	387.7	340.2	360	372.1	1460
[illegible]	360	350	380	390	1480

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
[illegible]	.56	.45	.97	.35	2.32
[illegible]	1.60	1.24	.88	.20	3.92
[illegible]	.63	.28	.45	.25	1.61
[illegible]	.53	.44	.60	.33	1.90
2004	.55	.45	.65	.35	2.00

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
[illegible]	.20	.20	.20	.20	.80
2000	.20	.20	.20	.20	.80
2001	.20	.20	.20	.20	.80
2002	.20	.22	.22	.22	.86
2003	.22	.23	.23		

BUSINESS: PNM Resources, parent of Public Service Company of New Mexico, sells electricity (77% of revenues), gas (23%), other less than (1%) in north-central New Mexico (population: 1,300,000). Largest customer: City of Albuquerque. Electric revenue breakdown: residential, 35%; commercial, 43%; industrial, 14%; other, 8%. Area's military establishments are major customers. Fuels: coal, 68%; nuclear, 31%; gas/oil, 1%. Fuel costs: 47% of revs.; labor costs: 16%. '02 depreciation rate: 3.4%. Est'd plant age: 13 years. Has 2,656 employees, 15,046 stockholders. Chairman, Chief Executive Officer & President: Jeffry E. Sterba. Incorp.: New Mexico. Address: 414 Silver Avenue, South West, Albuquerque, New Mexico 87102. Telephone: 505-241-2477. Internet: www.pnm.com.

PNM Resources has an agreement with interested parties covering gas rates. The settlement provides for a $[illegible] million increase in base rates and $[illegible] million in miscellaneous customer charges. (The company had filed for $[illegible] million.) The additional revenues provide a [illegible]% return on equity on the gas utility, compared to an earned return of under [illegible]% in 2002. A further increase in off-system market-based transportation revenues could boost the return by another 1%. The agreement also allows PNM to recover $4.4 million in costs previously approved by the commission but not yet collected. These costs will be recovered over three years. If the regulators approve the arrangement, which we consider likely, the order will take effect in November.

The wholesale power marketing business is performing well. Last year, PNM completed two merchant plants with a combined capacity of 215 megawatts (mw) in southern New Mexico. These units have good prospects because transmission restraints make importing power into the area difficult. Too, the company recently began operating three combustion turbines with a total capability of 215 mw and will add [illegible] more units when market conditions [illegible]. In addition, [illegible] mw of wind power [illegible] the [illegible] eastern New Mexico. PNM will buy [illegible] output for 25 years. The sale of [illegible] generated by these plants will be free of commission oversight. The market for [illegible] output is strong.

Earnings will likely move higher this year. Since the state has no fuel adjustment clause, lower coal costs resulting from the shift from surface to underground mining will boost profits. Other pluses include a reduced payroll and expected gains on wholesale and retail energy sales. Overall, we estimate an 18% rise in 2003 earnings, to $1.90 a share. The gas rate agreement should help lift earnings next year. For now, the stock is untimely.

The yield is a cut below the group average. But a low payout ratio and steady earnings gains to 2006-2008 suggest above-average dividend growth over the same timeframe. At the stock's recent price, we rate PNM an average utility investment.

Arthur H. Medalie *August 15, 2003*

(A) EPS diluted. Next egs rep't due late Oct. Excl. nonrecur. gains (losses): '88, ($4.81); '90, (55¢); '92, ($3.42); '93, ($2.85); '94, 11¢; '95, net: 35¢; '97, 4¢; '98, net (24¢); '99, 8¢; '00, 21¢; '01, (15¢); '03, 69¢. (B) Div'ds historically paid in mid-Feb., mid-May, mid-Aug., and mid-Nov. ■ Div'd reinvest. plan avail. (C) Incl. intang. in '02: $9.34/sh. (D) In mill. (E) Rate base: net orig. cost. Elect. ROE allow. in '90: 12.52%; earned on avg. com. eq. '02: 6.8%. Regul. Clim.: Avg.

Company's Financial Strength	B++
Stock's Price Stability	90
Price Growth Persistence	70
Earnings Predictability	50

Item 5, page 5

DTE ENERGY CO

SEGMENT DATA (SOURCE: 10-K 12/31/2002)	SALES (000S)	OP INCOME
ELECTRIC UTILITY	12,934,000	NA
GAS UTILITY	3,021,000	NA
	15,955,000	

81%

FIVE YEAR SUMMARY

DATE	SALES (000$)	NET INCOME	EPS
2002	6,749,000	632,000	NA
2000	5,791,000	332,000	NA
2001	4,638,000	468,000	NA
2000	4,499,000	483,000	NA
1999	4,174,000	443,000	NA
GROWTH RATE	12.7	9.2	NA

BALANCE SHEET

ANNUAL ASSETS (000$)

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
CASH	370,000	425,000	152,000
RECEIVABLES	1,198,000	987,000	562,000
INVENTORIES	576,000	505,000	335,000
OTHER CURRENT ASSETS	620,000	562,000	603,000
TOTAL CURRENT ASSETS	2,764,000	2,479,000	1,652,000
PROP, PLANT & EQUIP	17,862,000	17,073,000	13,162,000
ACCUMULATED DEP	8,049,000	7,524,000	5,775,000
NET PROP & EQUIP	9,813,000	9,549,000	7,387,000
INVEST & ADV TO SUBS	904,000	1,042,000	667,000
DEFERRED CHARGES	2,982,000	3,316,000	2,688,000
INTANGIBLES	2,119,000	2,003,000	24,000
DEPOSITS & OTH ASSET	656,000	492,000	238,000
TOTAL ASSETS	19,238,000	18,881,000	12,656,000

ANNUAL LIABILITIES (000$)

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
NOTES PAYABLE	414,000	681,000	503,000
ACCOUNTS PAYABLE	647,000	581,000	404,000
CUR LONG TERM DEBT	NA	NA	297,000
CUR PORT CAP LEASES	1,018,000	517,000	NA
ACCRUED EXPENSES	164,000	225,000	162,000
INCOME TAXES	NA	NA	116,000
OTHER CURRENT LIAB	970,000	823,000	565,000
TOTAL CURRENT LIAB	3,213,000	2,827,000	2,047,000
MORTGAGES	5,656,000	5,892,000	NA
DEFERRED CHARGES/INC	1,263,000	1,853,000	1,971,000
LONG TERM DEBT	2,047,000	1,947,000	3,894,000
NON-CUR CAP LEASES	82,000	89,000	145,000
OTHER LONG TERM LIAB	2,412,000	1,684,000	590,000
TOTAL LIABILITIES	14,673,000	14,292,000	8,647,000
COMMON STOCK NET	3,052,000	2,811,000	1,912,000
RETAINED EARNINGS	2,132,000	1,846,000	2,097,000
OTHER EQUITIES	-619,000	-68,000	NA
SHAREHOLDER EQUITY	4,565,000	4,589,000	4,009,000
TOT LIAB & NET WORTH	19,238,000	18,881,000	12,656,000

MGE ENERGY INC

SEGMENT DATA (SOURCE: 10-K 12/31/2002)	SALES (000S)	OP INCOME
ELECTRIC OPERATIONS	224,987	31,045
GAS OPERATIONS	126,639	9,527
	351,626	

64%

FIVE YEAR SUMMARY

DATE	SALES (000$)	NET INCOME	EPS
2002	347,096	29,193	1.69
2001	333,711	27,245	1.62
2000	324,108	27,355	1.67
1999	274,034	23,746	1.48
1998	249,752	22,230	1.38
GROWTH RATE	8.5	7.0	5.1

BALANCE SHEET

ANNUAL ASSETS (000$)

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
CASH	2,998	2,421	4,307
RECEIVABLES	54,814	41,547	38,161
INVENTORIES	26,308	28,683	21,392
OTHER CURRENT ASSETS	12,851	10,573	36,660
TOTAL CURRENT ASSETS	96,971	83,224	100,520
PROP, PLANT & EQUIP	825,571	743,905	952,035
ACCUMULATED DEP	365,243	340,660	510,381
NET PROP & EQUIP	460,328	403,245	441,654
INVEST & ADV TO SUBS	35,493	29,847	3,988
DEFERRED CHARGES	36,103	27,758	25,442
TOTAL ASSETS	628,895	544,074	571,604

ANNUAL LIABILITIES (000$)

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
NOTES PAYABLE	34,298	9,500	44,000
ACCOUNTS PAYABLE	32,039	22,156	28,792
CUR LONG TERM DEBT	NA	20,000	200
ACCRUED EXPENSES	3,161	3,110	10,680
OTHER CURRENT LIAB	11,049	7,013	3,565
TOTAL CURRENT LIAB	80,547	61,779	87,237
DEFERRED CHARGES/INC	62,450	58,821	100,618
LONG TERM DEBT	192,149	157,600	NA
OTHER LONG TERM LIAB	60,972	43,655	NA
TOTAL LIABILITIES	396,118	321,855	187,855
COMMON STOCK NET	227,370	216,292	383,749
OTHER EQUITIES	5,407	5,927	NA
SHAREHOLDER EQUITY	232,777	222,219	383,749
TOT LIAB & NET WORTH	628,895	544,074	571,604

CINERGY NYSE-CIN

RECENT PRICE 37.38 | P/E RATIO 14.1 (Trailing: 15.0, Median: 14.0) | RELATIVE P/E RATIO 0.84 | DIV'D YLD 5.0% | **VALUE LINE** 703

TIMELINESS 3
SAFETY 2
TECHNICAL 3

Target Price Range 2006 2007 2008

LEGENDS

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+35%)	12%
Low	40	(+5%)	7%

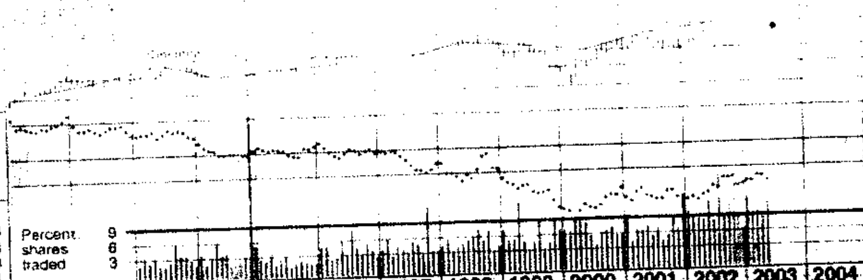
Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	2	0	0	0	0	1
to Sell	0	0	0	0	0	0	1	0	1

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	128	164	163
to Sell	137	111	108
Hld's(000)	100544	104845	112384

Percent shares traded 9 6 3



% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	10.0	-4.1
3 yr.	65.0	12.0
5 yr.	53.4	23.8

Cinergy was formed on October 24, 1994 through the merger of Cincinnati Gas & Electric and PSI Resources. Each common share of Cincinnati Gas & Electric was exchanged for 1.00 share of Cinergy, while each common share of PSI Resources was exchanged for 1.023 Cinergy shares. Pre-merger data are figures for Cincinnati Gas & Electric only and are not comparable to Cinergy data.

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
19.89	18.64	19.23	20.57	27.59	37.04	37.36	52.98	81.07	70.91	34.20	34.35	Revenues per sh	34.80
3.87	3.13	3.98	3.99	4.75	4.02	4.34	4.87	5.15	4.59	5.10	5.35	"Cash Flow" per sh	6.00
2.16	1.30	2.22	2.19	2.30	1.97	2.10	2.50	2.75	2.22	2.65	2.75	Earnings per sh [A]	3.05
1.68	[illegible]	1.72	1.74	1.80	1.80	1.80	1.80	1.80	1.80	1.84	1.88	Div'd Decl'd per sh [B]	2.00
2.26	[illegible]	2.06	2.05	2.08	2.32	2.43	3.27	5.31	5.06	4.25	3.60	Cap'l Spending per sh	2.95
17.25	15.56	16.17	16.39	16.10	16.02	16.70	17.36	18.45	19.53	21.00	22.05	Book Value per sh [C]	25.40
88.06	155.20	157.67	157.68	157.74	158.66	158.92	158.97	159.40	168.86	177.10	179.80	Common Shs Outst'g [F]	187.90
12.5	[illegible]	11.9	14.1	14.9	17.6	14.2	11.0	11.7	15.0	Bold figures are		Avg Ann'l P/E Ratio	15.0
.74	[illegible]	.80	.88	.86	.92	.81	.72	.60	.82	Value Line		Relative P/E Ratio	1.00
6.2%	[illegible]	6.5%	5.6%	5.3%	5.2%	6.1%	6.6%	5.6%	5.4%	estimates		Avg Ann'l Div'd Yield	4.4%
1751.7	2924.[illegible]	3031.4	3242.7	4352.8	5876.3	5937.9	8422.0	12923	11960	6060	6180	Revenues ($mill)	6540
214.0	226.[illegible]	378.0	369.0	472.0	318.1	340.8	404.1	446.8	364.0	485	515	Net Profit ($mill)	595
31.7%	40.2%	36.7%	37.2%	34.5%	26.9%	38.0%	38.4%	36.4%	30.2%	36.0%	36.0%	Income Tax Rate	36.0%
3.1%	[illegible]	2.7%	2.0%	1.2%	.5%	1.2%	2.0%	7.3%	5.8%	5.0%	4.0%	AFUDC % to Net Profit	3.0%
49.7%	48.4%	46.3%	47.7%	44.2%	49.7%	52.1%	50.2%	52.1%	52.7%	50.0%	48.0%	Long-Term Debt Ratio	43.0%
41.3%	[illegible]	46.6%	48.6%	52.2%	48.5%	46.3%	48.2%	42.6%	42.5%	45.5%	47.5%	Common Equity Ratio	53.0%
3678.3	[illegible]	5467.5	5313.7	4868.1	5238.3	5735.6	5728.2	6907.4	7745.3	8175	8315	Total Capital ($mill)	9020
3785.6	[illegible]	6251.[illegible]	6289.6	6297.1	6344.5	6417.5	6630.4	8236.9	8648.[illegible]	8960	9140	Net Plant ($mill)	9200
7.9%	[illegible]	8.9%	8.7%	11.6%	7.7%	7.7%	8.4%	7.9%	[illegible]	7.5%	7.5%	Return on Total Cap'l	8.0%
11.6%	[illegible]	12.9%	13.3%	17.4%	12.1%	12.4%	14.2%	13.5%	9.3%	12.0%	12.0%	Return on Shr. Equity	11.5%
12.4%	[illegible]	13.6%	13.4%	18.1%	12.3%	12.6%	14.5%	15.0%	10.9%	12.5%	12.5%	Return on Com Equity [D]	12.0%
2.8%	NMF	3.1%	2.8%	6.9%	1.1%	1.9%	4.1%	5.3%	1.3%	4.0%	4.0%	Retained to Com Eq	4.0%
80%	[illegible]	79%	81%	53%	91%	86%	72%	65%	82%	71%	70%	All Div'ds to Net Prof	67%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $4623.5 mill. **Due in 5 Yrs** $2374.5 mill.
LT Debt $3977.0 mill. **LT Interest** $209.0 mill.
(LT interest earned: 3.8x)
Pension Assets-12/02 $756.6 mill. Oblig.-$1314.9 mill.
Pfd Stock $371.5 mill. **Pfd Div'd** $24.7 mill.
552,451 shs. 3.5% to 6.875% ($100 par), callable at $100 to $108 a sh.; 303,544 shs. 4.16% to 4.32% $25 par, call. at $25; $308.2 mill. preferred trust securities.

Common Stock 175,376,919 shs.
MARKET CAP: $6.6 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+3.8	-1.0	+.8
Avg. Indust. Use (MWH)	2880	2751	2701
Avg. Indust. Revs. per KWH (¢)	3.79	4.10	4.01
Capacity at Peak (Mw)	10996	11083	11249
Peak Load, Summer (Mw)	10141	11091	11133
Annual Load Factor (%)	63.8	NA	NA
% Change Customers (yr-end)	+2.0	+1.3	+.8
Fixed Charge Cov. (%)	365	328	282

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	14.0%	25.0%	[illegible]
"Cash Flow"	2.5%	3.0%	[illegible]
Earnings	.5%	2.0%	[illegible]
Dividends	1.0%	.5%	[illegible]
Book Value	[illegible]	2.5%	[illegible]

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	1583	1770	2300	2769	8422
2001	3707	3642	3324	2250	12928
2002	2192	2471	3880	3417	11960
2003	1282	1320	1800	1658	6060
2004	1310	1350	1830	1690	6180

Cal-endar	EARNINGS PER SHARE [A] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.87	.47	.58	.58	2.50
2001	.75	.51	.80	.69	2.75
2002	.58	.27	.78	.59	2.22
2003	.80	.45	.80	.60	2.65
2004	.72	.50	.85	.68	2.75

Cal-endar	QUARTERLY DIVIDENDS PAID [B] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.45	.45	.45	.45	1.80
2000	.45	.45	.45	.45	1.80
2001	.45	.45	.45	.45	1.80
2002	.45	.45	.45	.45	1.80
2003	.46	.46			

BUSINESS: Cinergy Corp. is a holding company formed through the merger of Cincinnati Gas & Electric and PSI Resources. Supplies elect. (85% of revs.) to 1,500,000 customers, natural gas (15%) to 496,000 customers, in Ohio, Kentucky, and Indiana. Elect. (Gas) revs.: resid. 43% (66%); commer., 28% (26%); indust., 25% (4%); other 4% (4%). The primary metal and chemical industries are the largest customers. Fuel costs: 38% of revenues. '02 deprec rate: 3.0%. Est'd plant age: 12 years. Fuels: coal, 87%; natural gas, 8%; other, 5%. Has 7,823 employees, 55,637 common stockholders. Chairman, President & CEO: James E. Rogers. Inc.: Delaware. Address: 139 East 4th St., Cincinnati, OH 45202. Tel.: 513-381-2000. Internet: www.cinergy.com.

Cinergy's capital budget soared in 2001 and will remain high through 2003, largely because of the need to comply with the U.S. Environmental Protection Agency's directive to reduce nitrogen oxide emissions at the company's coal-fired plants. EPA had filed suit against CIN for noncompliance with The Clean Air Act and seeks $27,500 per day for each violation since March, 2000. To meet EPA requirements, management converted its Noblesville coal-burning unit to a gas burner and is making similar changes at nine small coal plants. The bulk of the $800 million outlays to lower pollution and upgrade nitrogen oxide reduction technology is near completion and should be finalized next year. Construction spending will then decline, and CIN should be able to induce the EPA to drop its lawsuit.

The company has lowered its rate request in Indiana by $25 million, to $200 million. The revised amount reflects an updated evaluation of the utility's needs. The application seeks recovery of the $376 million purchase of two natural gas-fired units from CIN's unregulated affiliate, the repowering of the Noblesville unit, and improvements to the transmission system. In addition, some $68 million is being sought for environmental expenditures. Under Indiana law, a portion of this amount will be phased in prior to 2004 for preapproved projects. A regulatory order on the petition is due in February.

Earnings are on an upward path. Positives include a reduced headcount resulting from last year's retirement program, a likely 1%-2% rise in retail energy sales, and a full year of the May, 2002 gas rate increase in Ohio. But these gains will be pared somewhat by the dilutive effect of more common shares outstanding and higher pension and medical costs. On balance, we look for 2003 earnings of $2.65 a share. A likely rate hike in Indiana suggests improved results next year.

Income-oriented investors might consider these shares. The yield is a full percentage point above the industry norm. Too, a reduction in environmental spending and our projection of steady earnings growth to 2006-2008 should allow increased dividends at a rate a cut above that of the group.

Arthur H. Medalie *July 4, 2003*

(A) EPS diluted. Excl. extraord. gains (losses): '93, ($2.55); '96, (12¢); '97, (69¢); '98 (32¢); '99, 43¢; '03, 15¢. Next egs. rpt. due late July. (B) Div'ds historically paid mid-Feb., mid-May, mid-Aug., and mid-Nov. ■ Div'd reinvest. plan avail. (C) Incl. def. chgs. In '02, $6.41/sh. (D) Rate base: Net original cost. Allowed on com. eq. Ohio [illegible] elect. 12.9%, Indiana in '96: 11.0%. Earned avg. com. eq. '02: 11.9%. Regul. Clim.: Above Avg. (E) Pro forma. (F) In mill., adjust. for split.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	25
Earnings Predictability	90

Item 5, page 8

21

SOUTHERN CO

DESCRIPTION OF BUSINESS: THE GROUP'S PRINCIPAL ACTIVITIES ARE THE ACQUISITION, DEVELOPMENT, BUILDING, OWNERSHIP, AND OPERATION OF POWER PRODUCTION AND DELIVERY FACILITIES. THE GROUP OWNS GENERATING PLANTS AND OTHER SOURCES OF POWER THAT ARE INTERCONNECTED BY TRANSMISSION FACILITIES SUPPORTED BY HEAVY-DUTY HIGH VOLTAGE LINES. THE GROUP ALSO PROVIDES ENERGY-RELATED SERVICES TO UTILITIES AND INDUSTRIAL COMPANIES. THE GROUP OPERATES THROUGH TWO SEGMENTS NAMELY: INTEGRATED SOUTHEAST UTILITIES AND OTHER. INTEGRATED SOUTHEAST UTILITIES PROVIDE ELECTRIC SERVICES IN THE STATES OF ALABAMA, GEORGIA, FLORIDA AND MISSISSIPPI. THE OTHER SEGMENT PROVIDES TELECOMMUNICATIONS, ENERGY PRODUCTS AND SERVICES AND LEASING AND FINANCING SERVICES. ELECTRIC SERVICES ACCOUNTED FOR 97% OF 2002 REVENUES AND OTHER, 3%.

PRELIMINARY EARNINGS DATA

ITEMS	VALUES	PERIOD	NEWS DATE
Basic EPS	0.41	1Q	05/05/2003
Primary EPS	0.28	4Q	01/20/1998
Primary EPS	1.42	12M	01/20/1998
Fully Diluted EPS	0.41	1Q	05/05/2003
Common Shares Outstanding	720,957,179	1Q	05/21/2003
Net Sales	2,553,000,000	1Q	05/05/2003
Operating Profit	588,083,000	1Q	05/21/2003
Pre-Tax Income	419,000,000	1Q	05/05/2003
Net Income	298,000,000	1Q	05/05/2003
Total Current Assets	2,922,000,000	1Q	05/21/2003
Total Assets	32,850,000,000	1Q	05/21/2003
Total Current Liabilities	4,822,000,000	1Q	05/21/2003
Stockholder's Equity	8,871,000,000	1Q	05/21/2003
Gain(Loss) from Disc Oprs	367,000	1Q	05/21/2003
WtdAvg ComStock(Basic)	718,943,000	1Q	05/21/2003
WtdAvg ComStock(Primary)	691,000,000	4Q	01/20/1998
WtdAvg ComStock(Primary)	685,000,000	12M	01/20/1998
WtdAvg ComStock(Fully Diluted)	724,891,000	1Q	05/21/2003

19

FPL GROUP INC

DESCRIPTION OF BUSINESS: THE GROUP'S PRINCIPAL ACTIVITY IS TO GENERATE, TRANSMIT, DISTRIBUTE AND MARKET ELECTRIC ENERGY THROUGH SUBSIDIARIES: FLORIDA POWER AND LIGHT COMPANY AND FLORIDA POWER AND LIGHT COMPANY GROUP CAPITAL. THE GROUP SUPPLIES ELECTRIC SERVICES TO APPROXIMATELY 4.0 MILLION CUSTOMERS AND TO MOST OF THE EAST AND LOWER WEST COASTS OF FLORIDA. FPL GROUP CAPITAL HOLDS THE CAPITAL STOCK AND PROVIDES FUNDING FOR THE OPERATING SUBSIDIARIES OTHER THAN FPL. OTHER FPL GROUP OPERATIONS INCLUDE SALE OF WHOLESALE FIBER-OPTIC NETWORK CAPACITY TO FPL AND OTHER NEW AND EXISTING CUSTOMERS, PRIMARILY TELEPHONE, CABLE TELEVISION, INTERNET AND OTHER TELECOMMUNICATIONS COMPANIES. THE GROUP OPERATES SOLELY IN THE DOMESTIC MARKET.

SEGMENT DATA (SOURCE: 10-K 12/31/2002)	SALES (000S)	OP INCOME
FPL	7,378,000	717,000
FPL ENERGY	829,000	53,000
OTHER	104,000	-75,000

FIVE YEAR SUMMARY

DATE	SALES (000$)	NET INCOME	EPS
2002	8,311,000	473,000	4.02
2001	8,326,000	781,000	4.63
2000	7,062,000	704,000	4.14
1999	6,438,000	697,000	4.07
1998	6,661,000	664,000	3.85
GROWTH RATE	5.6	-8.1	1.0

PRELIMINARY EARNINGS DATA

ITEMS	VALUES	PERIOD	NEWS DATE
Basic EPS	3.93	9M	05/24/2003
Primary EPS	0.52	4Q	01/15/1998
Primary EPS	3.57	12M	01/15/1998
Fully Diluted EPS	3.93	9M	05/24/2003
Common Shares Outstanding	183,288,175	1Q	05/15/2003

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

6. In reference to Dr. Weaver's assumption in a footnote on Schedule 12 that LG&E and KU would have a B++ Value Line Financial Strength Rating:

a. Provide a complete explanation of the basis for this assumption.

b. Provide any data or calculations used by Dr. Weaver in reaching this conclusion.

Answer:

a. As stated on page 23, lines 11 through 14, the Financial Strength Rating is an assessment of financial leverage, business risk, company size and other factors made by Value Line analysts for each of the companies they follow. With respect to financial leverage, three of the twenty-one companies have an "A" rating and one of the companies has an "A+" rating. These four companies have an equity to total capital percentage of between 40.6% and 50.7% and three of these companies have a percent electric revenues between 85% and 95%.

KU's equity ratio exceeds the equity ratio of the four "A" or "A+" rated companies. The two companies with equity ratios greater than KU are rated "B" or "B++". KU has a high percent of electric sales so it would be in an "A" or "A+" range for this category. There is little business risk and the electric companies would be similar with regard to this measure. KU is a relatively small company and this would place it in a "B" category. I do not know what the other factors that the analysts would consider. It is my judgment that KU would have a Financial Strength Rating of "B++."

LG&E's equity ratio is within the range of the ratios for the four companies with an "A" to "A+" range. LG&E has a lower percent electric sales than three of the four companies in the "A" to "A+" range. It too is a relatively small company. It is my judgment that it would also have a "B++" Financial Strength Rating.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

7. Separately for each column (i.e., Financial Strength Rating, Equity Ratio, Percent Electric Revenues and Average) on Schedule 12:

a. Provide an explanation of why each factor was used.

b. Indicate whether a higher number in the column indicates higher or lower risk to the company in question and explain how Dr. Weaver reaches this conclusion.

Answer:

a. The Value Line Financial Strength Rating, as stated on page 23 in the testimony in lines 11 –14, "is an assessment of financial leverage, business risk, company size, and other factors made by Value Line analysts for each of the companies that they follow." Companies that have a similar Financial Strength Rating in the opinion of the Value Line analysts would be somewhat similar to each other with respect to these factors. Equity to total capital was used because it too is a measure of financial risks. These were used because both KU and LG&E have higher equity ratios than most of the companies in the selection pool and it is important to capture this extremely low financial risk. Percent electric revenues is an important measure to obtain a group of companies that are as similar as possible to one another. Many electric companies have diversified their operations since the advent of deregulation. Eleven of the 21 companies in the selection pool derive less than 70% of their sales revenues from electric sales. The objective of company selection is to obtain companies that are as similar as possible to KU and LG&E. As indicated at the top of page 23 in the testimony, no two companies are exact clones of one another. These criteria assure that the companies are as similar as possible to KU and LG&E so that the market data reflects the return on equity of companies that have similar risk, assure the financial integrity of KU and LG&E, and enable these companies to attract capital.

b. The numbers in the columns were not used as absolute measures of risk. They were used to gauge similarity.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

8. In reference to Dr. Weaver's statement on page 12, lines 19-20, indicate why the interest rates on utility bonds might increase by an amount greater than Treasury notes might increase.

Answer:

The returns required for a given level of risk have a non-linear relationship. Each investor has his own set of risk/return tradeoffs and for risk averse investors, as risk increases, the amount of expected return required to attract their investment increases at an increasing rate.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

9. In reference to Schedules 17-28, provide the interest, dividends and earnings figures used in the calculations for each company.

Answer:

Sch. / Yr.		Company	Interest	Dividends	Earnings
17	01	Cinergy	265,792	286,289	442,279
	02		249,906	298,292	360,576
18 23	01	DTE	468,000	325,000	332,000
	02		548,000	338,000	632,000
19	01	FPL	324,000	377,000	781,000
	02		311,000	400,000	473,000
20	01	MGE	13,789	22,341	27,245
	02		12,545	23,170	29,193
21	01	Southern	744,000	922,000	1, 262,000
	02		684,000	958,000	1,318,000
22	01	Constellation	225,600	120,700	90,900
	02		268,300	137,800	525,600
24	01	Empire	30,010	22,613	10,402
	02		30,571	27,885	25,524
25	01	PNM	64,840	31,876	150,433
	02		61,412	34,226	64,272
26	01	Progress	672,893	432,078	541,610
	02		633,441	479,981	528,386
27	01	KU	34,024	32,756	96,414
	02		25,688	2,256	93,384
28	01	LG&E	37,922	27,995	106,781
	02		29,805	73,300	88,929

Note: Schedule 17 contained an error in the Quality of Earnings Measure. Attached is a new Schedule 17 with the change in bold print. Also attached is a new Schedule 16 with the change also in bold. Please make the following changes to the testimony:
Page 31, line 10: 3.06 should be 2.46
Page 36, line 12: 3.06 should be 2.46
Page 36, line 13: 3.06 should be 2.46

Exhibit_____
Carl G. K. Weaver
Schedule 16

Cash Flow Summary

Company Name	Average Cash Flow Coverage of: Interest	Dividends	Investing Activities	Quality of Earnings
Kentucky Utilities:				
Cinergy	4.34	2.92	0.79	**2.19**
DTE Energy	2.76	2.69	0.61	1.99
FPL Group Inc.	7.76	5.50	0.65	3.71
MGE Energy	6.05	2.94	1.88	2.38
Southern Company	4.67	2.77	0.91	2.02
Average	5.12	3.36	0.97	**2.46**
Kentucky Utilities	7.19	41.82	1.05	1.92
LG&E:				
Constellation Energy	4.17	6.08	1.79	4.12
DTE Energy	2.76	2.69	0.61	1.99
Empire District	2.83	2.15	0.72	3.19
PNM Resources	4.32	6.56	0.64	1.84
Progress Energy	3.32	3.31	0.79	2.82
Average	3.48	4.16	0.91	2.79
LG&E	8.35	6.58	1.06	2.54

Source: Schedule 17 through 28.

Item 9, Page 2

Exhibit _____
Carl G. K. Weaver
Revised Schedule 17

Cash Flow Analysis
Cinergy Corp
(thousands of dollars)

	2001	2002	Average
Cash Flow from Operating Activities	717,849	996,199	857,024
Cash Flow from Investing Activities	(1,567,099)	(889,408)	(1,228,254)
Cash Flow from Financing Activities	867,263	3,225	435,244
Change in Cash Flow	18,013	110,016	64,015
Cash Flow Coverage of Interest	3.70	4.99	4.34
Cash Flow Coverage of Total Dividends	2.51	3.34	2.92
Cash flow Coverage of Investing Activities	0.46	1.12	0.79
Quality of Earnings	**1.62**	**2.76**	**2.19**

Source: August 2003 Compact Disclosure

Item 9, Page 3

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

10. In reference to the 8 percent interest rate discussed at page 28, line 17, indicate the basis for using this level of interest rate.

Answer:

KU and LG&E have an A1 bond rating by Merchant (Moody's). Schedule 4 shows that in January through August 2003, average yields on public utility bonds have ranged from 6.13% to 7.58%. Schedule 5 shows that 10–year Treasury Bonds are expected to increase by 60 basis points in 2004 over 2003. Longer termed public bonds will increase by this or a greater amount in 2004. Therefore, 8% represents a reasonable estimate for assuming an increase in debt in 2004. Since it is higher than the rate at which KU and LG&E are currently obtaining debt capital, it also represents a conservative assumption.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

11. In reference to Schedules 29 and 30:

a. For each factor that represents a 3-year average, provide the individual yearly figures for each company.

b. Explain how "Times Interest Earned" is calculated.

c. Provide the calculation of Times Interest Earned for DTE Energy, KU and LG&E.

Answer:

a. A copy of the compact disclosure sheets that contain the data for each factor for each company.

b. Earnings before interest and taxes divided by interest.

c.

Company	2002	2001	2000	Avg.
DTE	2.05	1.47	2.42	1.98
KU	6.74	5.52	4.74	5.67
LG&E	5.83	5.49	5.05	5.46

Cinergy

KEY ANNUAL FINANCIAL RATIOS

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
QUICK RATIO	0.50	0.39	0.38
CURRENT RATIO	0.85	0.66	0.77
SALES/CASH	53.51	116.32	85.36
SG & A/SALES	0.13	0.10	0.17
RECEIVABLES TURNOVER	9.15	11.57	5.11
RECEIVABLES DAYS SALES	39.33	31.11	70.40
INVENTORIES TURNOVER	37.03	53.91	52.10
INVENTORIES DAYS SALES	9.72	6.68	6.91
NET SALES/WORKING CAPITAL	-25.88	-12.19	-7.89
NET SALES/PLANT & EQUIPMENT	1.37	1.58	1.22
NET SALES/CURRENT ASSETS	4.62	6.25	2.39
NET SALES/TOTAL ASSETS	0.89	1.05	0.67
NET SALES/EMPLOYEES	1,512,114	1,473,231	992,718
TOTAL LIAB/TOTAL ASSETS	0.72	0.73	0.77
TOTAL LIAB/INVESTED CAPITAL	1.30	1.36	1.65
TOTAL LIAB/COMMON EQUITY	3.23	3.41	3.40
TIMES INTEREST EARNED	3.23	3.70	3.94
CURRENT DEBT/EQUITY	0.06	0.05	0.01
LONG TERM DEBT/EQUITY	1.22	1.20	1.01
TOTAL DEBT/EQUITY	1.27	1.25	1.02
TOTAL ASSETS/EQUITY	3.96	4.09	4.32
PRETAX INC/NET SALES	0.05	0.06	0.08
PRETAX INC/TOTAL ASSETS	0.04	0.06	0.05
PRETAX INC/INVESTED CAPITAL	0.07	0.11	0.11
PRETAX INC/COMMON EQUITY	0.17	0.24	0.24
NET INCOME/NET SALES	0.03	0.03	0.05
NET INCOME/TOTAL ASSETS	0.03	0.04	0.03
NET INCOME/INVESTED CAPITAL	0.05	0.07	0.07
NET INCOME/COMMON EQUITY	0.11	0.15	0.14

DTE

KEY ANNUAL FINANCIAL RATIOS

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
QUICK RATIO	0.49	0.50	0.35
CURRENT RATIO	0.86	0.88	0.81
SALES/CASH	18.24	13.63	30.51
SG & A/SALES	0.41	0.36	0.37
RECEIVABLES TURNOVER	5.63	5.87	8.25
RECEIVABLES DAYS SALES	63.90	61.36	43.62
INVENTORIES TURNOVER	11.72	11.47	13.84
INVENTORIES DAYS SALES	30.72	31.39	26.00
NET SALES/WORKING CAPITAL	-15.03	-16.64	-11.74
NET SALES/PLANT & EQUIPMENT	0.69	0.61	0.63
NET SALES/CURRENT ASSETS	2.44	2.34	2.81
NET SALES/TOTAL ASSETS	0.35	0.31	0.37
NET SALES/EMPLOYEES	608,128	525,023	507,218
TOTAL LIAB/TOTAL ASSETS	0.76	0.76	0.68
TOTAL LIAB/INVESTED CAPITAL	2.19	2.16	1.07
TOTAL LIAB/COMMON EQUITY	3.21	3.11	2.16
TIMES INTEREST EARNED	2.05	1.47	2.42
CURRENT DEBT/EQUITY	NA	NA	0.07
LONG TERM DEBT/EQUITY	0.45	0.42	0.97
TOTAL DEBT/EQUITY	0.45	0.42	1.05
TOTAL ASSETS/EQUITY	4.21	4.11	3.16
PRETAX INC/NET SALES	0.08	0.04	0.10
PRETAX INC/TOTAL ASSETS	0.03	0.01	0.04
PRETAX INC/INVESTED CAPITAL	0.09	0.03	0.06
PRETAX INC/COMMON EQUITY	0.13	0.05	0.12
NET INCOME/NET SALES	0.09	0.06	0.10
NET INCOME/TOTAL ASSETS	0.03	0.02	0.04
NET INCOME/INVESTED CAPITAL	0.09	0.05	0.06
NET INCOME/COMMON EQUITY	0.14	0.07	0.12

FPL Group

KEY ANNUAL FINANCIAL RATIOS

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
QUICK RATIO	0.23	0.20	0.28
CURRENT RATIO	0.49	0.44	0.64
SALES/CASH	31.24	101.54	54.90
SG & A/SALES	0.27	0.24	0.26
RECEIVABLES TURNOVER	12.95	13.09	11.12
RECEIVABLES DAYS SALES	27.81	27.50	32.38
INVENTORIES TURNOVER	18.55	23.86	19.14
INVENTORIES DAYS SALES	19.41	15.09	18.81
NET SALES/WORKING CAPITAL	-4.15	-4.09	-7.21
NET SALES/PLANT & EQUIPMENT	0.58	0.71	0.71
NET SALES/CURRENT ASSETS	4.36	5.20	3.98
NET SALES/TOTAL ASSETS	0.42	0.48	0.46
NET SALES/EMPLOYEES	864,648	853,336	719,862
TOTAL LIAB/TOTAL ASSETS	0.67	0.64	0.62
TOTAL LIAB/INVESTED CAPITAL	1.06	1.01	0.97
TOTAL LIAB/COMMON EQUITY	2.06	1.87	1.70
TIMES INTEREST EARNED	4.02	4.58	4.74
CURRENT DEBT/EQUITY	0.02	0.01	NA
LONG TERM DEBT/EQUITY	0.88	0.78	0.68
TOTAL DEBT/EQUITY	0.89	0.78	0.68
TOTAL ASSETS/EQUITY	2.99	2.80	2.63
PRETAX INC/NET SALES	0.11	0.14	0.15
PRETAX INC/TOTAL ASSETS	0.05	0.07	0.07
PRETAX INC/INVESTED CAPITAL	0.08	0.10	0.11
PRETAX INC/COMMON EQUITY	0.15	0.19	0.19
NET INCOME/NET SALES	0.06	0.09	0.10
NET INCOME/TOTAL ASSETS	0.02	0.04	0.05
NET INCOME/INVESTED CAPITAL	0.04	0.07	0.07
NET INCOME/COMMON EQUITY	0.07	0.13	0.13

NGE

KEY ANNUAL FINANCIAL RATIOS

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
QUICK RATIO	0.72	0.71	0.49
CURRENT RATIO	1.20	1.35	1.15
SALES/CASH	115.78	137.84	75.25
SG & A/SALES	0.30	0.31	0.31
RECEIVABLES TURNOVER	6.33	8.03	8.49
RECEIVABLES DAYS SALES	56.85	44.82	42.39
INVENTORIES TURNOVER	13.19	11.63	15.15
INVENTORIES DAYS SALES	27.29	30.94	23.76
NET SALES/WORKING CAPITAL	21.13	15.56	24.40
NET SALES/PLANT & EQUIPMENT	0.75	0.83	0.73
NET SALES/CURRENT ASSETS	3.58	4.01	3.22
NET SALES/TOTAL ASSETS	0.55	0.61	0.57
NET SALES/EMPLOYEES	508,193	493,655	467,688
TOTAL LIAB/TOTAL ASSETS	0.63	0.59	0.33
TOTAL LIAB/INVESTED CAPITAL	0.93	0.85	0.49
TOTAL LIAB/COMMON EQUITY	1.70	1.45	0.49
TIMES INTEREST EARNED	4.82	4.14	4.01
CURRENT DEBT/EQUITY	NA	0.09	0.00
LONG TERM DEBT/EQUITY	0.83	0.71	NA
TOTAL DEBT/EQUITY	0.83	0.80	0.00
TOTAL ASSETS/EQUITY	2.70	2.45	1.49
PRETAX INC/NET SALES	0.14	0.13	0.13
PRETAX INC/TOTAL ASSETS	0.08	0.08	0.08
PRETAX INC/INVESTED CAPITAL	0.11	0.11	0.11
PRETAX INC/COMMON EQUITY	0.21	0.19	0.11
NET INCOME/NET SALES	0.08	0.08	0.08
NET INCOME/TOTAL ASSETS	0.05	0.05	0.05
NET INCOME/INVESTED CAPITAL	0.07	0.07	0.07
NET INCOME/COMMON EQUITY	0.13	0.12	0.07

Southern

KEY ANNUAL FINANCIAL RATIOS

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
QUICK RATIO	0.35	0.41	0.41
CURRENT RATIO	0.59	0.68	0.76
SALES/CASH	38.64	28.69	49.10
SG & A/SALES	0.25	0.24	0.24
RECEIVABLES TURNOVER	7.00	7.12	7.67
RECEIVABLES DAYS SALES	51.39	50.59	46.92
INVENTORIES TURNOVER	12.59	10.76	14.34
INVENTORIES DAYS SALES	28.60	33.47	25.11
NET SALES/WORKING CAPITAL	-5.15	-7.15	-11.27
NET SALES/PLANT & EQUIPMENT	0.43	0.44	0.47
NET SALES/CURRENT ASSETS	3.56	3.44	3.56
NET SALES/TOTAL ASSETS	0.33	0.34	0.32
NET SALES/EMPLOYEES	402,972	NA	386,841
TOTAL LIAB/TOTAL ASSETS	0.64	0.64	0.57
TOTAL LIAB/INVESTED CAPITAL	1.15	1.16	0.97
TOTAL LIAB/COMMON EQUITY	3.24	3.38	2.22
TIMES INTEREST EARNED	3.70	3.25	2.90
CURRENT DEBT/EQUITY	NA	NA	0.01
LONG TERM DEBT/EQUITY	0.96	0.99	0.73
TOTAL DEBT/EQUITY	0.96	0.99	0.74
TOTAL ASSETS/EQUITY	3.53	3.58	2.92
PRETAX INC/NET SALES	0.17	0.17	0.16
PRETAX INC/TOTAL ASSETS	0.06	0.06	0.05
PRETAX INC/INVESTED CAPITAL	0.10	0.10	0.09
PRETAX INC/COMMON EQUITY	0.21	0.21	0.15
NET INCOME/NET SALES	0.12	0.12	0.13
NET INCOME/TOTAL ASSETS	0.04	0.04	0.04
NET INCOME/INVESTED CAPITAL	0.07	0.08	0.07
NET INCOME/COMMON EQUITY	0.15	0.16	0.12

Constellation

KEY ANNUAL FINANCIAL RATIOS

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
QUICK RATIO	0.96	0.28	0.63
CURRENT RATIO	1.33	0.53	0.77
SALES/CASH	6.80	15.48	4.57
SG & A/SALES	0.06	0.12	0.06
RECEIVABLES TURNOVER	3.77	5.25	4.76
RECEIVABLES DAYS SALES	95.48	68.58	75.60
INVENTORIES TURNOVER	14.03	12.11	16.45
INVENTORIES DAYS SALES	25.65	29.74	21.89
NET SALES/WORKING CAPITAL	6.95	-2.32	-6.27
NET SALES/PLANT & EQUIPMENT	0.59	0.50	0.57
NET SALES/CURRENT ASSETS	1.74	2.05	1.91
NET SALES/TOTAL ASSETS	0.33	0.27	0.29
NET SALES/EMPLOYEES	540,575	421,609	483,897
TOTAL LIAB/TOTAL ASSETS	0.71	0.71	0.74
TOTAL LIAB/INVESTED CAPITAL	1.15	1.48	1.47
TOTAL LIAB/COMMON EQUITY	2.65	2.67	3.02
TIMES INTEREST EARNED	4.11	1.53	3.23
CURRENT DEBT/EQUITY	0.11	0.35	0.27
LONG TERM DEBT/EQUITY	1.14	0.67	0.94
TOTAL DEBT/EQUITY	1.24	1.02	1.21
TOTAL ASSETS/EQUITY	3.49	3.50	3.85
PRETAX INC/NET SALES	0.18	0.03	0.15
PRETAX INC/TOTAL ASSETS	0.06	0.01	0.04
PRETAX INC/INVESTED CAPITAL	0.10	0.02	0.09
PRETAX INC/COMMON EQUITY	0.22	0.03	0.18
NET INCOME/NET SALES	0.11	0.02	0.09
NET INCOME/TOTAL ASSETS	0.04	0.01	0.03
NET INCOME/INVESTED CAPITAL	0.06	0.01	0.05
NET INCOME/COMMON EQUITY	0.14	0.02	0.11

Empire

KEY ANNUAL FINANCIAL RATIOS

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
QUICK RATIO	0.52	0.30	0.16
CURRENT RATIO	1.08	0.50	0.41
SALES/CASH	21.19	23.24	105.07
SG & A/SALES	0.19	0.19	0.17
RECEIVABLES TURNOVER	9.70	8.68	13.11
RECEIVABLES DAYS SALES	37.11	41.45	27.46
INVENTORIES TURNOVER	9.80	13.23	17.94
INVENTORIES DAYS SALES	36.75	27.21	20.07
NET SALES/WORKING CAPITAL	42.72	-3.77	-3.24
NET SALES/PLANT & EQUIPMENT	0.39	0.35	0.36
NET SALES/CURRENT ASSETS	3.23	3.77	4.71
NET SALES/TOTAL ASSETS	0.32	0.30	0.32
NET SALES/EMPLOYEES	386,241	431,527	433,982
TOTAL LIAB/TOTAL ASSETS	0.61	0.64	0.71
TOTAL LIAB/INVESTED CAPITAL	0.85	0.99	1.04
TOTAL LIAB/COMMON EQUITY	2.12	2.62	2.46
TIMES INTEREST EARNED	2.26	1.40	2.42
CURRENT DEBT/EQUITY	NA	0.14	0.08
LONG TERM DEBT/EQUITY	1.09	1.15	1.36
TOTAL DEBT/EQUITY	1.09	1.29	1.44
TOTAL ASSETS/EQUITY	2.95	3.32	3.46
PRETAX INC/NET SALES	0.13	0.04	0.13
PRETAX INC/TOTAL ASSETS	0.04	0.01	0.04
PRETAX INC/INVESTED CAPITAL	0.06	0.02	0.06
PRETAX INC/COMMON EQUITY	0.12	0.04	0.15
NET INCOME/NET SALES	0.08	0.04	0.09
NET INCOME/TOTAL ASSETS	0.03	0.01	0.03
NET INCOME/INVESTED CAPITAL	0.04	0.02	0.04
NET INCOME/COMMON EQUITY	0.08	0.04	0.10

PNM

KEY ANNUAL FINANCIAL RATIOS			
FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
QUICK RATIO	0.53	0.66	0.95
CURRENT RATIO	0.89	1.06	1.40
SALES/CASH	14.03	31.83	14.96
SG & A/SALES	0.15	0.08	0.11
RECEIVABLES TURNOVER	9.28	15.92	6.76
RECEIVABLES DAYS SALES	38.78	22.62	53.27
INVENTORIES TURNOVER	31.40	64.13	44.64
INVENTORIES DAYS SALES	11.47	5.61	8.06
NET SALES/WORKING CAPITAL	-27.32	117.10	11.23
NET SALES/PLANT & EQUIPMENT	0.63	1.33	1.00
NET SALES/CURRENT ASSETS	3.34	6.64	3.18
NET SALES/TOTAL ASSETS	0.39	0.80	0.56
NET SALES/EMPLOYEES	440,134	874,698	604,152
TOTAL LIAB/TOTAL ASSETS	0.67	0.64	0.67
TOTAL LIAB/INVESTED CAPITAL	1.03	0.95	1.03
TOTAL LIAB/COMMON EQUITY	2.11	1.88	2.16
TIMES INTEREST EARNED	2.58	4.57	3.68
CURRENT DEBT/EQUITY	NA	NA	NA
LONG TERM DEBT/EQUITY	0.99	0.93	1.03
TOTAL DEBT/EQUITY	0.99	0.93	1.03
TOTAL ASSETS/EQUITY	3.07	2.84	3.13
PRETAX INC/NET SALES	0.08	0.10	0.11
PRETAX INC/TOTAL ASSETS	0.03	0.08	0.06
PRETAX INC/INVESTED CAPITAL	0.05	0.12	0.09
PRETAX INC/COMMON EQUITY	0.10	0.23	0.19
NET INCOME/NET SALES	0.05	0.06	0.06
NET INCOME/TOTAL ASSETS	0.02	0.05	0.03
NET INCOME/INVESTED CAPITAL	0.03	0.08	0.05
NET INCOME/COMMON EQUITY	0.07	0.15	0.11

Progress

KEY ANNUAL FINANCIAL RATIOS

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
QUICK RATIO	0.37	0.30	0.18
CURRENT RATIO	1.04	0.84	0.47
SALES/CASH	129.49	150.54	37.21
SG & A/SALES	0.22	0.20	0.25
RECEIVABLES TURNOVER	8.26	8.26	4.07
RECEIVABLES DAYS SALES	43.61	43.58	88.44
INVENTORIES TURNOVER	9.08	9.28	8.95
INVENTORIES DAYS SALES	39.67	38.81	40.21
NET SALES/WORKING CAPITAL	65.18	-14.94	-1.25
NET SALES/PLANT & EQUIPMENT	0.63	0.70	0.34
NET SALES/CURRENT ASSETS	2.78	2.79	1.42
NET SALES/TOTAL ASSETS	0.37	0.39	0.19
NET SALES/EMPLOYEES	519,289	499,098	235,558
TOTAL LIAB/TOTAL ASSETS	0.68	0.71	0.73
TOTAL LIAB/INVESTED CAPITAL	0.88	1.01	1.29
TOTAL LIAB/COMMON EQUITY	2.18	2.46	2.74
TIMES INTEREST EARNED	1.62	1.57	3.78
CURRENT DEBT/EQUITY	0.04	0.11	0.03
LONG TERM DEBT/EQUITY	1.44	1.41	1.09
TOTAL DEBT/EQUITY	1.48	1.53	1.12
TOTAL ASSETS/EQUITY	3.15	3.43	3.71
PRETAX INC/NET SALES	0.05	0.05	0.18
PRETAX INC/TOTAL ASSETS	0.02	0.02	0.03
PRETAX INC/INVESTED CAPITAL	0.02	0.03	0.06
PRETAX INC/COMMON EQUITY	0.06	0.06	0.12
NET INCOME/NET SALES	0.07	0.07	0.13
NET INCOME/TOTAL ASSETS	0.02	0.03	0.02
NET INCOME/INVESTED CAPITAL	0.03	0.04	0.04
NET INCOME/COMMON EQUITY	0.08	0.09	0.09

KV

KEY ANNUAL FINANCIAL RATIOS

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
QUICK RATIO	0.14	0.21	0.38
CURRENT RATIO	0.34	0.54	0.55
SALES/CASH	164.76	260.84	2,713.19
SG & A/SALES	0.18	0.15	0.15
RECEIVABLES TURNOVER	17.91	18.98	9.42
RECEIVABLES DAYS SALES	20.10	18.97	38.21
INVENTORIES TURNOVER	19.27	19.81	22.24
INVENTORIES DAYS SALES	18.68	18.17	16.19
NET SALES/WORKING CAPITAL	-3.40	-8.07	-8.08
NET SALES/PLANT & EQUIPMENT	0.51	0.54	0.54
NET SALES/CURRENT ASSETS	6.63	6.98	6.51
NET SALES/TOTAL ASSETS	0.44	0.47	0.49
NET SALES/EMPLOYEES	938,921	852,651	3,407,764
TOTAL LIAB/TOTAL ASSETS	0.57	0.58	0.59
TOTAL LIAB/INVESTED CAPITAL	0.95	0.87	0.90
TOTAL LIAB/COMMON EQUITY	1.41	1.43	1.54
TIMES INTEREST EARNED	6.74	5.52	4.74
CURRENT DEBT/EQUITY	0.18	0.07	0.08
LONG TERM DEBT/EQUITY	0.41	0.56	0.61
TOTAL DEBT/EQUITY	0.59	0.63	0.68
TOTAL ASSETS/EQUITY	2.34	2.36	2.45
PRETAX INC/NET SALES	0.17	0.18	0.17
PRETAX INC/TOTAL ASSETS	0.07	0.08	0.08
PRETAX INC/INVESTED CAPITAL	0.12	0.13	0.13
PRETAX INC/COMMON EQUITY	0.18	0.21	0.22
NET INCOME/NET SALES	0.11	0.11	0.11
NET INCOME/TOTAL ASSETS	0.05	0.05	0.05
NET INCOME/INVESTED CAPITAL	0.08	0.08	0.08
NET INCOME/COMMON EQUITY	0.11	0.13	0.14

LG+E

KEY ANNUAL FINANCIAL RATIOS

FISCAL YEAR ENDING	12/31/2002	12/31/2001	12/31/2000
QUICK RATIO	0.14	0.17	0.34
CURRENT RATIO	0.32	0.36	0.52
SALES/CASH	60.31	471.92	150.12
SG & A/SALES	0.22	0.19	0.16
RECEIVABLES TURNOVER	14.99	11.63	5.76
RECEIVABLES DAYS SALES	24.01	30.94	62.54
INVENTORIES TURNOVER	11.81	14.57	15.42
INVENTORIES DAYS SALES	30.47	24.71	23.34
NET SALES/WORKING CAPITAL	-2.43	-2.94	-3.85
NET SALES/PLANT & EQUIPMENT	0.48	0.49	0.52
NET SALES/CURRENT ASSETS	5.05	5.25	3.59
NET SALES/TOTAL ASSETS	0.40	0.41	0.44
NET SALES/EMPLOYEES	1,151,722	1,098,897	1,404,924
TOTAL LIAB/TOTAL ASSETS	0.64	0.62	0.61
TOTAL LIAB/INVESTED CAPITAL	1.30	1.16	1.10
TOTAL LIAB/COMMON EQUITY	1.96	1.81	1.74
TIMES INTEREST EARNED	5.83	5.49	5.05
CURRENT DEBT/EQUITY	0.31	0.26	0.28
LONG TERM DEBT/EQUITY	0.35	0.40	0.41
TOTAL DEBT/EQUITY	0.66	0.66	0.69
TOTAL ASSETS/EQUITY	2.76	2.62	2.55
PRETAX INC/NET SALES	0.14	0.17	0.18
PRETAX INC/TOTAL ASSETS	0.06	0.07	0.08
PRETAX INC/INVESTED CAPITAL	0.11	0.13	0.14
PRETAX INC/COMMON EQUITY	0.17	0.20	0.22
NET INCOME/NET SALES	0.09	0.11	0.11
NET INCOME/TOTAL ASSETS	0.03	0.04	0.05
NET INCOME/INVESTED CAPITAL	0.07	0.08	0.09
NET INCOME/COMMON EQUITY	0.11	0.13	0.14

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

12. In reference to Dr. Weaver's relative risk analysis on pages 36-37:

a. In reaching the conclusion concerning the relative riskiness of KU and LG&E versus their respective comparison groups, did Dr. Weaver weight each factor equally?

b. If not, which factors were weighted more?

c. If the factors were not weighted equally, provide the weights Dr. Weaver placed on each of the factors.

Answer:

a. I did not perform a mathematical calculation in which I weighted the factors differently. An explanation of how I considered the factors is contained on page 36, lines 36 – 40; and on page 37, lines 1 – 10.

b. See response to a.

c. See response to a.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

13. In reference to Dr. Weaver's statement at page 42, lines 14-16 that the DCF constant growth model has greater use by participants in the capital market than the multi-stage DCF or the bond-yield-risk premium models:

a. Provide all studies, documents, surveys, etc. relied upon by Dr. Weaver in making this statement.

b. Does Dr. Weaver claim that the DCF constant growth model has greater use by participants in the capital market than the CAPM method? If so, provide all studies documents, surveys, etc. relied upon by Dr. Weaver to support this contention.

Answer:

a. I reached this conclusion based upon my experience teaching finance courses in managerial finance and in capital markets analysis. The multi-stage DCF and bond-yield-risk premium models are not covered as well in financial text books as are the constant growth DCF and the CAPM models. A great deal of the financial literature that deals with cost of equity analysis deals with the CAPM model.

b. No.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
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14. In reference to Dr. Weaver's statement at page 42, lines 20-22:
a. Define "quality of beta estimates."
b. Provide all texts, financial journal articles, etc. relied upon by Dr. Weaver in making this statement.

Answer:

a. The "quality of beta estimates" refers to how closely an estimate for beta actually measures an actual beta. An estimate that is close to its actual value has better quality.

b. Attached is chapter 3 from Modern Portfolio Theory, The Capital Asset Pricing Model and Arbitrage Pricing Theory: A User's Guide, second Edition by Diana R. Harrington. The References at the end of the chapter provide an excellent resource for studies on the quality of beta.

apital Asset Pricing," *Journal of*
341-60.
ing Model," *Journal of Fi-*

glewood Cliffs, N.J.: Prentice-

Security Returns, 1931-1979,"
er 1982, p. 9.
ersification in a Three-Moment
itative Analysis, 13 (December

ther Opinion Regarding Diver-
f Financial Research, 6 (Spring

es and Equity Security Pricing,"
, 31-40.
nvestor, July 1980, pp. 23-30.

chapter

4

Estimating Beta

In Chapter 1 we defined *beta* as a measure of the relative volatility of returns: as the average rate of return from the market moves up and down, what happens to the returns for a given asset? If the asset's returns tend to move up and down more dramatically than do the market returns, the asset is considered relatively more volatile—more risky—and it will have a higher beta. In the capital asset pricing model, beta is the sole asset-specific or portfolio-specific factor. At any given time the forecasts for the risk-free rate and the market premium are the same for every asset or portfolio. Beta alone links the investor's expectations of returns from the asset or portfolio with his or her expectations of returns from the market. Because beta is such a crucial element in the CAPM, its estimation must be accurate.

In this chapter we will look at what we know about estimating beta. To develop a beta forecast, practitioners and academics often extrapolate from history often using some form of regression analysis. Using historical data and regression analysis presents two main problems. The first problem is determining the best way to capture the important information contained in history. In this chapter we will examine the various methods used to calculate beta from historical data. Specifically, we will look at the effect that using different time periods, indexes, risk-free rates, estimation techniques, and holding periods has on beta estimates.

Item 14, page 2

The second problem is the uncertainty over whether a historical beta is useful in forecasting risk. This problem is usually labeled *beta stability*. We will look at whether changes in beta (its instability) are the result of statistical problems or whether changes in beta represent true changes in the underlying risk of the asset. Thus, we will attempt to answer the question, Is a historically based beta stable enough to use as a proxy for expectations? We will conclude the chapter by considering some of the innovative ways developed by academics and practitioners to get better approximations of investors' expectations of an asset's (usually a stock's) systematic risk. In particular, we will look at some attempts that have been made to discover the underlying determinants of beta and to use those factors to predict beta.

Once again, the discussion will neither describe every piece of research nor summarize every article. Rather, this chapter will provide examples of what seem to be some of the most interesting and relevant work that has been done in the area.

To have some idea of the difficulties in making beta estimates, we need only look at the differences among betas estimated by popular beta services. *Beta services* are commercially available lists of betas produced by investment advisory services. Most of the betas shown in Exhibit 4–1 are from beta services and were calculated using historical returns. The exceptions are those provided by Wilshire and Barr Rosenberg Associates. These services use other firm-related historical data to calculate betas. The stocks whose betas are shown were arbitrarily chosen from the available data. Southern California Edison is interesting in that, in 1974, it was estimated to have above-average risk by Merrill Lynch and average risk by Value Line, Rosenberg, and Wilshire. The exhibit vividly demonstrates just how different beta estimates can be from different services, for different stocks, and at different points in time.

We might question the usefulness of beta when such different estimates can be made at the same point in time. Peterson (1972) did so and compared the betas published by four commercial producers—Levy, Value Line, Merrill Lynch, and Oliphant. He ranked the betas from each source and provided the rank-order correlations shown in Exhibit 4–2. A perfect correlation would be 1.00, and that would imply that each stock is ranked by the first service precisely as it is ranked by the second. Any correlation of less than 1.00 shows less than perfect agreement among the advisory services. Thus, we can see from Exhibit 4–2 that Merrill Lynch and Levy estimate the same ranking (but not the same beta) 56 percent of the time. Thus, not only beta but beta rankings can vary from one service to another.

It is important to note at this point that the behavior of beta is of interest to those who wish to test the ability of beta to explain returns

Exhibit 4–1

Betas Calculated by Investment Services for Selected Stocks

JANUARY 1974

		Barr Rosenberg		
	Market Model	Short-Term Fundamen-	Long-Term Fundamen-	
Merrill-Lynch				

Item 14, page 3

ver whether a historical beta
sually labeled *beta stability.*
ıbility) are the result of
represent true changes
will attempt to answer the
enough to use as a proxy for
by considering some of the
d practitioners to get better
an asset's (usually a stock's)
at some attempts that have
minants of beta and to use

describe every piece of re-
this chapter will provide ex-
ost interesting and relevant

making beta estimates, we
s estimated by popular beta
ilable lists of betas produced
e betas shown in Exhibit 4–
using historical returns. The
and Barr Rosenberg Associ-
historical data to calculate
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Wilshire. The exhibit vividly
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time. Peterson (1972) did so
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g (but not the same beta) 56
beta rankings can vary from

hat the behavior of beta is of
ty of beta to explain returns

Exhibit 4–1

Betas Calculated by Investment Services for Selected Stocks

	Merrill-Lynch (Adjusted)		Market Model (Adjusted)		Barr Rosenberg			Value Line
					Historical	Short-Term Fundamental	Long-Term Fundamental	
JANUARY 1974								
American Airlines	2.04	(1.69)	2.11	(1.01)	2.12	2.35	2.22	2.26
American Cyanamid	0.99	(1.00)	0.97	(0.98)	0.98	1.01	1.03	1.08
Houston Industries	1.08	(1.05)	1.12	(1.00)	1.21	1.12	1.10	0.77
San Diego Gas and Electric	0.99	(0.99)	0.98	(0.99)	1.03	0.87	0.90	0.73
Southern California Edison	1.33	(1.22)	1.33	(1.02)	1.32	0.99	0.99	0.98
DECEMBER 1972								
American Airlines	1.53	(1.35)	1.15	(0.77)	1.41	1.67	1.60	1.45
American Cyanamid	1.04	(0.84)	0.84	(0.76)	0.95	0.95	0.98	1.05
Houston Industries	1.00	(1.00)	0.69	(0.73)	1.05	1.08	0.98	0.90
San Diego Gas and Electric	0.61	(0.74)	0.48	(0.66)	0.65	0.82	0.88	0.70
Southern California Edison	0.72	(0.81)	0.52	(0.67)	0.72	0.82	0.84	0.80

Source: Diana P. Harrington, "Whose Beta Is Best?" *Financial Analysts Journal,* 39 (July–August 1983), 3.

Item 14, page 4

Exhibit 4–2

Beta Rank-Order Correlations

	LEVY	VALUE LINE	MERRILL LYNCH	OLIPHANT
Levy	1.00	.61	.56	.48
Value Line		1.00	.77	.74
Merrill Lynch			1.00	.85
Oliphant				1.00

Source: D. Peterson, "Suggests Caution in the Use of Betas," *Financial Analysts Journal*, 28 (May–June 1972), 104.

(particularly realized returns), to forecast rates of return, or to evaluate investment portfolios. A review of the assumptions described in Chapter 2 shows that beta is present in the CAPM, but only as a measure of systematic risk—we do not have to restrict the behavior of beta to derive the CAPM.

I. BETA BASICS

Returns for any security are not "caused" by the market. Rather, returns are driven by macroeconomic events. The effect that these economic events have on investors' expectations will depend on three main factors:

1. The responsiveness of the asset's or portfolio's returns to economic events. This responsiveness is measured as the covariance of the asset's rate of return with that of the market [covariance (R_j,R_m)].
2. The relationship of the firm's basic characteristics (such as its debt level) with the average characteristics of firms in the market [covariance (R_j,R_m)].
3. The general uncertainty attached by investors to macroeconomic events (such as changes in the level of oil prices), described as the variance of the market (R_m).

The expected beta for a firm will change if any of the underlying relationships change. For example, if the firm increases its leverage relative to that of the market or undertakes unusually risky ventures, the change would be a real change in the systematic risk of the firm and should be reflected in beta.

Mathematically, beta is

$$\beta_j = \frac{\text{cova}}{\text{va}}$$

where

variance (R_m) = the uncert

covariance (R_j,R_m) = the respon (R_j) to thos rate of ret (R_m)

j = an asset, s

m = the marke

Covariance itself is defined

where

ρ_{jm} = the correlation coefficien returns of j with the ret

σ = the standard deviation o

The mathematical relationship is pectational. Much of the difficul come as a result of compromise— pectational factors. Most often tionship of the stock's rate of re common stock returns.

Using common stock retur using an index that represents further compromise. The marke risky assets, but common stock verse. While Chapter 6 will disc is useful to note that since da machine-readable form and thus ies, much of the focus of CAP toward explaining common stoc

Basic Regression Technique

The simplest way to examine th turns from any asset and those relationship over time. Exhibit

Mathematically, beta is

$$\beta_j = \frac{\text{covariance } (R_j, R_m)}{\text{variance } (R_m)}$$

where

variance (R_m) = the uncertainty attached to economic events

covariance (R_j, R_m) = the responsiveness of an asset's rate of return (R_j) to those things that also change the market's rate of return (R_m)

j = an asset, stock, or portfolio

m = the market

Covariance itself is defined as $\rho_{jm}, \sigma_j, \sigma_m$

where

ρ_{jm} = the correlation coefficient, a measure of the correlation of the returns of j with the returns of m

σ = the standard deviation of the returns

The mathematical relationship is fairly simple, but each variable is expectational. Much of the difficulty we have had in estimating beta has come as a result of compromise—of our using inadequate proxies for expectational factors. Most often the proxy has been the historical relationship of the stock's rate of return to that of a broad-based index of common stock returns.

Using common stock returns represents a major compromise, and using an index that represents only a portion of the stock market is a further compromise. The market portfolio should be a collection of all risky assets, but common stocks represent only one portion of the universe. While Chapter 6 will discuss this problem further, at this point it is useful to note that since data on common stock returns comes in machine-readable form and thus lends itself to use in computerized studies, much of the focus of CAPM empirical research has been directed toward explaining common stock returns.

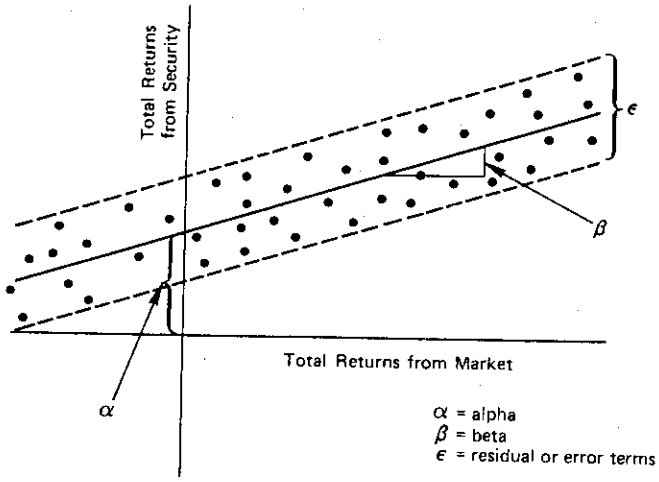
Basic Regression Technique

The simplest way to examine the historical relationship between the returns from any asset and those from the market is simply to plot the relationship over time. Exhibit 4-3 illustrates this method. At every

Item 14, page 6

Exhibit 4–3

Security Characteristic Line



point in time (every interval), the return from the asset and that from the market are represented by a dot on the chart. To convert all the dots to a more manageable descriptive relationship, we could fit a line to the data. This line is called the *security characteristic line.* Now we can describe the relationship by using the formula for a line ($y = a + bx$), the relationship that most of us learned in eighth-grade geometry.

The best-fitting line is one that will minimize the distance that each dot is from the line—the line that minimizes the squared errors. Thus, the method is called a *least-squares regression.* The intercept (a in the formula) is the minimum return from the asset if the return from the market were zero.[1] The slope (b) is the incremental return expected from the asset as the market return becomes higher or lower.

Although this is the basic regression technique, those estimating beta from history use a somewhat more elegant version of the formula for a straight line. This version is called the *market model* and is written as follows:[2]

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \epsilon_j$$

[1]Here we have plotted the total returns from the market and the asset. If we had plotted the excess returns, each asset's and the market's returns less the risk-free rate of return, the line would have gone through the origin and the alpha would have been zero.

[2]This is the total return version of the market model. It can also be written $R_{jt} - R_{ft} = \alpha_j + \beta_j(R_{mt} - R_{ft}) + \epsilon_j$, which is the risk-premium version, where R_f would be the risk-free rate of return.

where

R = total returns[3]

j = a firm or portfolio

t = the time period

m = the market

α = the intercept (or alpha) of tl return from the asset whe firms and over time the in

ϵ = the errors or the residuals without any remaining inf

β = the systematic risk (beta),

Because the market model many people presume that they model does not rely on any of t It simply states that the returns ship between the returns from th

In relying on historical da that history is an accurate predi or may not be true. Just how us on this question, let us look at market model.

Exhibit 4–4 shows the resu (using the S&P 500 as a proxy) a capital gains) from American Tel uary 1974 to December 1979. (sented by a dot. We could use o line to the dots. Mathematically

$$R_{ATT} =$$

Exhibit 4–5 provides the s 1984. This plot does not follow t plot followed. It would be muc However, using the linear-regre simplest calculators, we can calc

[3]Least-squares analysis works be are normally distributed. Unfortunately returns tend to be nonnormal.

Item 14, page 7

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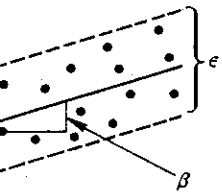

rom Market

α = alpha
β = beta
ϵ = residual or error terms

rom the asset and that from
chart. To convert all the dots
ship, we could fit a line to the
cteristic line. Now we can de-
la for a line ($y = a + bx$), the
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et's returns less the risk-free rate of
nd the alpha would have been zero.
rket model. It can also be written
premium version, where R_f would be

where

R = total returns[3]

j = a firm or portfolio

t = the time period

m = the market

α = the intercept (or alpha) of the linear regression: the minimum return from the asset when the market return was zero (over all firms and over time the intercept should equal 0)

ϵ = the errors or the residuals (assumed to be normally distributed without any remaining information)

β = the systematic risk (beta), the slope of the line

Because the market model and the CAPM look remarkably alike, many people presume that they are the same. They are not. The market model does not rely on any of the assumptions inherent in the CAPM. It simply states that the returns-generating process is a linear relationship between the returns from the asset and the returns from the market.

In relying on historical data, these regression techniques assume that history is an accurate predictor of the future. The assumption may or may not be true. Just how useful is history? To get some perspective on this question, let us look at two sets of betas calculated using the market model.

Exhibit 4-4 shows the results of plotting the total market returns (using the S&P 500 as a proxy) against the total returns (dividends plus capital gains) from American Telephone and Telegraph (AT&T) from January 1974 to December 1979. Once again, each piece of data is represented by a dot. We could use our own judgment or a computer to fit a line to the dots. Mathematically, the resulting line would be

$$R_{ATT} = 0.432 + 0.575\ (R_m)$$

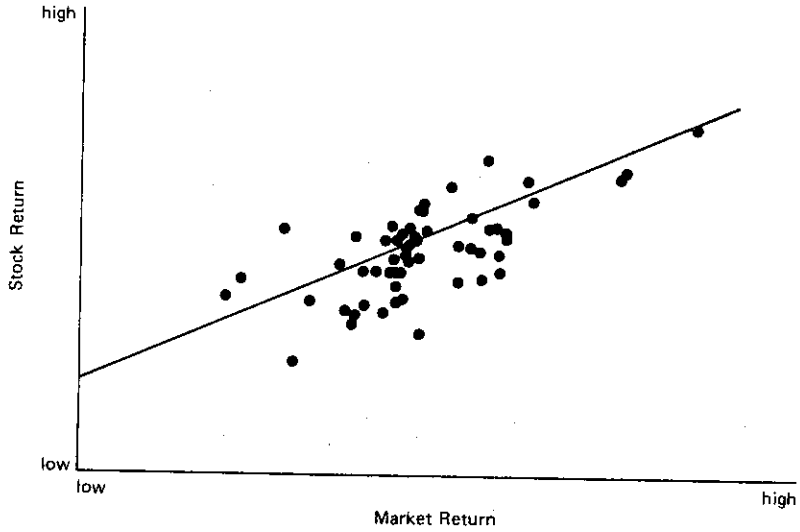
Exhibit 4-5 provides the same sort of data for AT&T from 1980 to 1984. This plot does not follow the distinct pattern that the earlier AT&T plot followed. It would be much more difficult to fit a line confidently. However, using the linear-regression package available on all but the simplest calculators, we can calculate a beta. The question is, How useful

[3]Least-squares analysis works best when the independent and dependent variables are normally distributed. Unfortunately, both the risk-free rates of return and the market returns tend to be nonnormal.

Item 14, page 8

Exhibit 4–4

Returns of AT&T vs. Returns of S&P 500, 1974–79



Alpha (*t*) (SEE) 0.432 (5.314) (.081)
Beta (*t*) (SEE) 0.575 (7.074) (.081)
R^2 .463

are these AT&T data in making a forecast for the future? And how useful were the earlier AT&T data? Clearly, changes in the AT&T returns had a closer relationship to changes in the market returns from 1974 to 1979 than they did from 1980 to 1984.

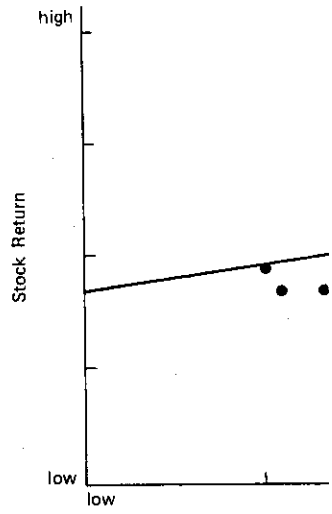
We need not look solely at the plotted data to determine the quality of the results. Using some simple tests, we can tell a great deal about the quality of the regression results. For instance, we can estimate the standard error of the estimated (SEE) beta or alpha. The standard error is like a standard deviation and gives us some idea of how much in error our estimate may be. For instance, if we had a beta of 0.80 and a standard error of 0.3, we could be more than 99 percent confident that the true beta lay in the range of 1.70 to −0.10.[4]

Furthermore, we can also determine the degree of confidence we have in the alpha, the beta, and the entire regression (the *t* and *F* tests) and can determine whether important factors have been omitted (the

[4]This is ±3 standard deviations from the mean. Basic statistics and finance texts provide explanations of the normal distribution and the use of standard deviation.

E

Returns of AT&T vs. F



Alpha (*t*) (SEE) 0.819 (
Beta (*t*) (SEE) 0.183 (
R^2 .059

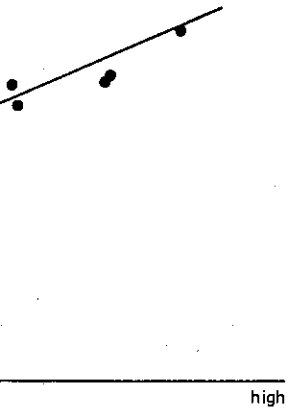
Durbin-Watson test).[5] We can a
the dependent variable (here, c
independent variable (the mark
the data. The measure that des
ficient of determination, or R^2. I
cident with market-return cha
planatory power would result i
4–4 and 4–5, the more disperse

The earlier AT&T data ha
the line. AT&T's R^2 of 0.46 is un
data for the early 1980s, howe
is very low. This figure means
AT&T's returns during this per

[5]For a simple description of these
example, S. E. Wheelwright and S. Mal
ed. (New York: John Wiley Interscienc

Item 14, page 9

500, 1974–79



the future? And how useful
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returns from 1974 to 1979

determine the quality
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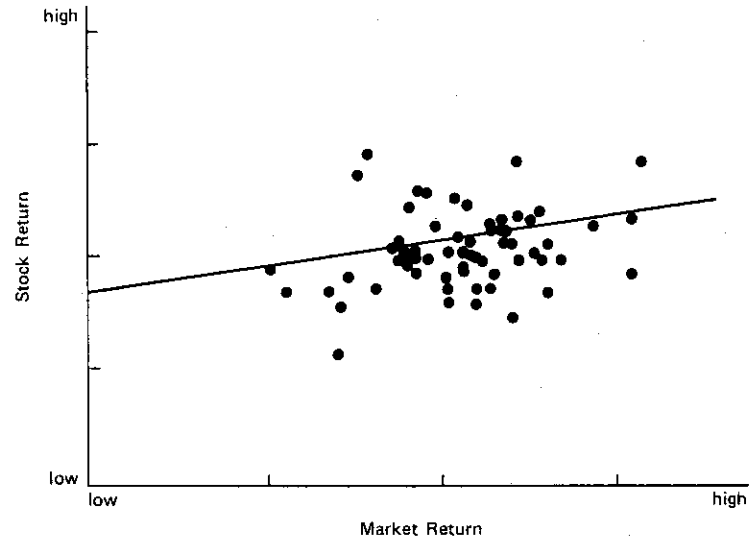
ent confident that the true

ne degree of confidence we
gression (the t and F tests)
rs have been omitted (the

Basic statistics and finance texts
use of standard deviation.

Exhibit 4–5

Returns of AT&T vs. Returns of S&P 500, 1980–84



Alpha (t) (SEE) 0.819 (8.424) (.097)
Beta (t) (SEE) 0.183 (1.909) (.096)
R^2 .059

Durbin-Watson test).[5] We can also describe how much of the activity of the dependent variable (here, our stock returns) was explained by the independent variable (the market returns)—that is, how well the line fits the data. The measure that describes this association is called the *coefficient of determination,* or R^2. If all the stock-return variation were coincident with market-return changes, the R^2 would be 1.00. Smaller explanatory power would result in a lower R^2. As you can see in Exhibits 4–4 and 4–5, the more dispersed the dots, the lower the R^2.

The earlier AT&T data have a very good fit; the points are close to the line. AT&T's R^2 of 0.46 is unusually high for a single stock. The AT&T data for the early 1980s, however, are widely spread and the R^2 of 0.06 is very low. This figure means that almost none of the movements of AT&T's returns during this period were related to market changes. This

[5]For a simple description of these test procedures, see basic statistics textbooks, for example, S. E. Wheelwright and S. Makridakis, *Forecasting Methods for Management,* 2d ed. (New York: John Wiley Interscience, 1980).

Item 19, page 10

makes sense. During the early 1980s, AT&T underwent major changes. Its regulated businesses—with the exception of its long-distance business—were divested, its other markets were opened to significant competition, and the investing public became uncertain about what effect these changes would have on the company. While the divestment did not occur until January 1984, the fact that such a divestiture would occur was known much earlier. Thus, over this period, virtually all the returns were determined by nonsystematic factors and events. History provided some information about AT&T prior to 1980 but few clues about AT&T's future systematic risk in 1984.

The AT&T example is one that is especially interesting. Prior to the order to restructure itself, AT&T's stock had one of the most stable betas of all companies. It was a textbook example. If, however, in the early 1980s, you had used history to predict the future, without knowledge of the changed circumstances of the company, you could have made a major error.

The beta calculated for an average stock has an R^2 of about 0.30. Perhaps we should be pleased that the market "explains" as much as 30 percent of the variance of a typical stock. By itself, this finding is significant but not surprising. Nevertheless, at least 70 percent remains to be explained. The question is, What else drives the price of individual securities? This question will be addressed later in this chapter, for we have not completed our examination of the problems in estimating beta from the history of returns.

Practical Problems in Regression Methodology

As we have seen, one of the conceptual problems in using regression analysis is the assumption that historical data can help us predict the future. But the technique also has some practical problems: the results can vary widely, depending on our choice of input data.

In early work, Jacob (1971) found that betas generated using the market model depended on three factors: the historical period over which the beta was estimated, the average market return during the period studied, and whether the investor actually used the market model as a method for estimating betas. Since Jacob's work, several other factors have been identified: the market proxy chosen, the measurement intervals used within the holding period, and the form of the market model used. To calculate a historical beta, we must make choices for each of these factors. Let us look at the differences that can result when different choices are made for each factor.

Measurement period

The length of time over wh
measurement or holding period
tically significant sample, but it
mation that does not reflect the
future.

What is the effect of diffe
Lerner (1972) looked specifically
for a number of stocks by using
sion), with monthly intervals. E
using the New York Stock Exch
change significantly as the holdi
results for other firms.

One further demonstration
from the C. I. Mortgage Group
ruptcy, Peseau (1977) calculated
expect the beta for 1971–74 and
cause the latter period includes
7, however, demonstrates that t
from that for 1971–75. Of cours
74 beta makes us suspicious of t
periods with higher R^2s is, nonet

E

Empirical Be

HOLDING PERIOD IN MONTH
6
12
18
24
30
36
42
48
54
60
66
72
78
84

Source: W. J. Breen and E. H. Lerner, "On t
of Economics and Management Science, Aut

Item 14, page 11

Measurement period

The length of time over which we calculate beta is important. The measurement or holding period must be long enough to allow a statistically significant sample, but it must not be so long as to include information that does not reflect the relationships likely to persist into the future.

What is the effect of different holding-period choices? Breen and Lerner (1972) looked specifically at this question. They calculated betas for a number of stocks by using the market model (simple linear regression), with monthly intervals. Exhibit 4–6 shows their results for IBM using the New York Stock Exchange Index for "the market." The betas change significantly as the holding period lengthens. They found similar results for other firms.

One further demonstration of the problem is of interest. Using data from the C. I. Mortgage Group, a firm that eventually declared bankruptcy, Peseau (1977) calculated betas for overlapping periods. We would expect the beta for 1971–74 and that for 1971–75 to be very similar because the latter period includes only one more year of data. Exhibit 4–7, however, demonstrates that the beta for 1971–74 differs dramatically from that for 1971–75. Of course, the low R^2 associated with the 1971–74 beta makes us suspicious of the 1971–74 results. The beta shift among periods with higher R^2s is, nonetheless, dramatic.

Exhibit 4–6

Empirical Beta Estimates for IBM

HOLDING PERIOD IN MONTHS	ALPHA	BETA
6	0.0079	2.2001
12	0.0251	1.1911
18	0.0394	0.9093
24	0.0398	1.0746
30	0.0847	0.7515
36	0.1241	0.5575
42	0.1453	0.4886
48	0.1293	0.3798
54	0.1384	0.4603
60	0.1889	0.4745
66	0.1418	0.8779
72	0.1295	0.7903
78	0.1508	0.4942
84	0.1209	0.6196

Source: W. J. Breen and E. H. Lerner, "On the Use of Beta in Regulatory Proceedings," *Bell Journal of Economics and Management Science,* Autumn 1972, p. 620.

Item 14, page 12

Exhibit 4-7

Betas for C. I. Mortgage Group

TIME PERIOD	INTER-CEPT TERM	(t-VALUE)	BETA	(t-VALUE)	R^2
1971-73	−.013	(− .38)	0.6	(1.96)*	.17
1971-74	−.045	(−1.96)	0.6	(1.29)	.04
1971-75	.010	(− .43)	2.6	(4.28)*	.32
1972-75	−.008	(− .29)	3.0	(4.69)*	.35
1972-76	−.016	(− .63)	3.0	(4.89)*	.33

*Indicates significance.

Source: D. Peseau, "Direct Testimony before the Public Utility Commissioner, State of Oregon in the Matter of Portland General Electric Co." (Oregon Docket No. UF-3339, September 1977).

The length of the holding period does affect the beta. Again, the bad news is that the CAPM does not help us in choosing the appropriate holding period. History, as always, is a difficult proxy for the future. Alexander and Chervany (1980), studying beta stability, estimated the optimal interval over which to calculate a beta. Using data from 1950-67, they found smaller absolute errors were associated with a six-year horizon, although they were insignificantly different from four years, as shown in Exhibit 4-8. While these results are, of course, subject to verification for different time periods and samples,[6] many had previously believed, from a statistical point of view, that the longer the period the better the beta.

Interval choice

The length of the intervals within the chosen holding period can affect the beta estimate. For instance, we might use weekly, monthly, quarterly, or annual intervals within the chosen period. Many experts contend that the interval is irrelevant; however, Levhari and Levy (1977) demonstrated that the betas estimated using different intervals are different. Using data from 1948-68, they calculated betas for a number of stocks using intervals of from 1 to 30 months. Their results are shown in Exhibit 4-9. The betas for most of the stocks change considerably as the interval lengthens. Others, for instance Phillips and Segal (1975), found similar results.

[6]For different results see, for instance, Nicholas Gonedes, "Evidence on the Information Content of Accounting Numbers: Accounting-Based and Market-Based Estimates of Systematic Risk," *Journal of Financial and Quantitative Analysis*, 8 (June 1973), 407-43; and Jerome Baesel, "On the Assessment of Risk: Some Further Considerations," *Journal of Finance*, 29 (December 1974), 1491-94.

Ex

Means and Absolu

PENTILE	1 Year	2 Y
1: Mean	−2.2891	−1.
MAD	2.4978	2.
2: Mean	− .6746	− .
MAD	1.2616	1.
3: Mean	.0147	− .
MAD	1.1390	1.
4: Mean	.6190	.
MAD	1.4024	1.
5: Mean	2.1760	1.
MAD	2.5991	2.
Overall:		
Mean	− .0308	− .
MAD	1.7800	1.
H Tests:		
Mean	1135.22*	2
MAD	453.35*	1

*Significant at the 5 percent level.

Source: Gordon J. Alexander and N. L. Cher *of Financial and Quantitative Analysis*, 15 (M

More recently, Hawawini (: triweekly, and monthly betas c Exhibit 4-10 he found them to l as to why this occurred. He beli shares had large market values the interval was shortened. Beta ket values would decline as the ment had to do with whether th

Perhaps even more interest problem that was first discover sion hearing considering the (COMSAT). In that case, two ex SAT that would be used to est mating COMSAT's cost of equi interval (monthly) and the same estimates were not the same. Th ered, was that one had used dat calculate beta, whereas the othe

A beta can be very sensiti

Item 14, page 13

Group

BETA	(t-VALUE)	R^2
0.6	(1.96)*	.17
0.6	(1.29)	.04
2.6	(4.28)*	.32
3.0	(4.69)*	.35
3.0	(4.89)*	.33

ility Commissioner, State of Oregon in the . UF-3339, September 1977).

es affect the beta. Again, the us in choosing the appropriate difficult proxy for the future. beta stability, estimated the eta. Using data from 1950–67, ssociated with a six-year hori- different from four years, as are, of course, subject to veri- bles,[6] many had previously be- the longer the period the bet-

nosen holding period can might use weekly, monthly, chosen period. Many experts ever, Levhari and Levy (1977) ing different intervals are dif- culated betas for a number of nths. Their results are shown tocks change considerably as ce Phillips and Segal (1975),

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Exhibit 4–8

Means and Absolute Errors–Beta Forecasts

	ESTIMATION INTERVAL				
PENTILE	1 Year	2 Years	4 Years	6 Years	9 Years
1: Mean	−2.2891	−1.7272	−1.2204	− .4833	− .3740
MAD	2.4978	2.1435	1.7078	.7805	1.1480
2: Mean	− .6746	− .2531	− .2869	− .3599	− .0235
MAD	1.2616	1.0734	1.2523	.7221	1.1764
3: Mean	.0147	− .1088	− .1982	− .0732	.4374
MAD	1.1390	1.1751	1.4893	.6650	1.5144
4: Mean	.6190	.5123	.1920	.2487	.1622
MAD	1.4024	1.4212	1.6673	.8802	1.6028
5: Mean	2.1760	1.0354	.5002	.8189	1.7987
MAD	2.5991	2.0068	1.7991	1.0149	2.3389
Overall:					
Mean	− .0308	− .1083	− .2027	− .0302	.4002
MAD	1.7800	1.5640	1.5831	.8125	1.5561
H Tests:					
Mean	1135.22*	295.21*	63.84*	67.19*	29.86*
MAD	453.35*	108.84*	17.61*	14.20*	24.07*

*Significant at the 5 percent level.

Source: Gordon J. Alexander and N. L. Chervany, "On the Estimation and Stability of Beta," *Journal of Financial and Quantitative Analysis,* 15 (March 1980), 129.

More recently, Hawawini (1983) estimated daily, weekly, biweekly, triweekly, and monthly betas over the period 1970–73. As shown in Exhibit 4–10 he found them to be quite different. Hawawini speculated as to why this occurred. He believed that, in general, companies whose shares had large market values would have betas that would increase as the interval was shortened. Betas of companies with smaller equity market values would decline as the interval shortened. In part, this movement had to do with whether their betas led or lagged the market.

Perhaps even more interesting than the interval problem is another problem that was first discovered in 1972 during a regulatory commission hearing considering the Communications Satellite Corporation (COMSAT). In that case, two expert witnesses calculated betas for COMSAT that would be used to establish comparable risk classes for estimating COMSAT's cost of equity. Each expert witness used the same interval (monthly) and the same total period (five years). Yet their beta estimates were not the same. The cause of the discrepancy, they discovered, was that one had used data from the third week of each month to calculate beta, whereas the other had used data from the fourth week.

A beta can be very sensitive to the interval chosen for the regres-

Exhibit 4–9

The Estimate of the Systematic Risk of Ten Defensive Stocks

HORIZON (IN MONTHS)	IDAHO POWER CORP.	AMERICAN CAN CORP.	NATIONAL DAIRY PRODUCTS	P. LORILLARD CORP.	AMERICAN TOBACCO	BORDEN, INC.	ABBOTT LABORATORY	STANDARD BRANDS	GREYHOUND CORP.
1	0.4282	0.5167	0.5281	0.6166	0.6296	0.6372	0.6576	0.6650	0.6752
2	0.4012	0.4886	0.4655	0.5711	0.4652	0.5912	0.5717	0.6147	0.6651
3	0.3796	0.3755	0.4475	0.3496	0.4993	0.5684	0.5892	0.5578	0.5773
4	0.3329	0.3311	0.3400	0.4881	0.3697	0.6142	0.5284	0.6397	0.5340
5	0.1881	0.2631	0.4428	0.2604	0.3283	0.3449	0.6319	0.4331	0.6709
6	0.3862	0.3402	0.4119	0.4253	0.3706	0.4330	0.3811	0.6112	0.5294
8	0.4322	0.0621	0.5309	0.4815	0.3020	0.4627	0.2398	0.7987	0.4907
10	0.2312	0.1236	0.4777	−0.0656	0.2438	0.4272	0.4729	0.5325	0.4800
12	0.2367	−0.0118	0.3511	−0.4615	0.0364	0.3390	0.4227	0.4289	0.6188
15	0.1556	0.0702	0.4544	−1.0612	−0.0365	−0.0561	0.1243	0.2008	0.1541
16	0.3016	0.2049	0.5016	−1.0387	0.1400	0.2723	0.1463	0.7473	0.1719
20	0.1142	−0.2563	0.3283	−1.1855	−0.1060	0.2336	0.0247	0.4002	0.2378
24	0.1068	−0.2690	0.3996	−2.0036	0.1657	0.0849	0.2474	0.3771	0.7826
30	0.2210	0.0101	0.2781	−2.8251	0.1187	0.1360	−0.3863	−0.0150	−0.5545

Source: D. Levhari and H. Levy, "The Capital Asset Pricing Model and the Investment Horizon," *Review of Economics and Statistics*, 59 (February 1977), 102.

Item 14, page 15

Exhibit 4–10

Betas Estimated on the Basis of Various Return Intervals,* January 1970–December 1973

	MONTHLY BETA	TRI-WEEKLY BETA	BIWEEKLY BETA	WEEKLY BETA	DAILY BETA
Wayne-Gossard	0.976	0.692	0.986	0.654	0.459
Michigan Seamless Tube	0.973	0.883	0.917	0.784	0.433
Publicker Industries	1.521	1.491	1.513	1.277	1.006
Great Western United	2.496	2.311	2.122	1.911	1.442
Family Finance	1.268	1.324	1.212	0.821	0.795
Bobbie Brooks	1.874	1.889	1.818	1.592	1.405

10	0.2312	0.1236	'777	−0.0656	0.2438	0.4272	0.4729	0.532'	0.4800
12	0.2367	−0.0118	511	−0.4615	0.0364	0.3390	0.4227	0.428ᵹ	0.6188
15	0.1556	0.0702	ʊ.4544	−1.0612	−0.0365	−0.0561	0.1243	0.2008	0.1541
16	0.3016	0.2049	0.5016	−1.0387	0.1400	0.2723	0.1463	0.7473	0.1719
20	0.1142	−0.2563	0.3283	−1.1855	−0.1060	0.2336	0.0247	0.4002	0.2378
24	0.1068	−0.2690	0.3996	−2.0036	0.1657	0.0849	0.2474	0.3771	0.7826
30	0.2210	0.0101	0.2781	−2.8251	0.1187	0.1360	−0.3863	−0.0150	−0.5545

Source: D. Levhari and H. Levy, "The Capital Asset Pricing Model and the Investment Horizon," *Review of Economics and Statistics,* 59 (February 1977), 102.

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Family Finance	1.268	1.324	1.212	0.821	0.795
Bobbie Brooks	1.874	1.889	1.818	1.592	1.405
Monogram Industries	2.950	2.887	2.844	2.403	2.144
Faberge	1.882	1.511	1.511	1.416	1.449
Dillingham Corp.	1.004	1.164	0.990	0.750	0.725
Vornado	2.329	1.628	2.170	1.823	1.765
Big Three Industries	1.339	0.970	1.283	0.969	0.712
Cabot Corp.	0.752	0.898	0.844	0.805	0.756
General Development	1.423	1.628	1.657	1.382	1.358
Addresso-Multigraph	2.094	2.341	1.566	1.414	1.733
Great Western Financial	2.246	1.820	2.043	2.158	1.917
Colgate-Palmolive	1.131	1.002	1.011	0.958	0.850
Aluminium Co. of America	1.115	1.221	1.118	1.150	1.118
Shell Oil	0.930	1.093	0.827	0.860	0.742
S.S. Kresge	1.190	1.326	1.299	1.308	1.237
Eastman Kodak	0.932	0.859	0.958	1.166	1.251

*Returns are measured as the logarithm of investment relatives. Market returns are those of the S&P 500. All betas are statistically significant at the 5 percent level.

Source: Gabriel Hawawini, "Why Beta Shifts as the Return Interval Changes," *Financial Analysts Journal,* 39 (May-June 1983), 74.

sion. The real difficulty is that we still must choose an estimation interval. Curiously enough, however, since we assumed all investors' horizons are identical, by choosing a particular interval we define the horizon of the market. In addition, we presume that over the horizon investors are not reallocating their portfolios; that is, they are not buying and/or selling their assets. However, the returns we are measuring are, in fact, driven by transactions that come as investors do reallocate their portfolios. Thus, we have direct evidence that all investors do not have the same horizon. How do we deal with such a conflict?

Since the CAPM gives us no guidelines for the choice of a horizon, those wishing to estimate a beta have looked elsewhere for direction. Sampling theory suggests that an adequate amount of data is needed to ensure a reasonably normal sample distribution. Since most of the hypotheses that are tested rest on the assumption of normalcy, as does the CAPM, sampling concerns (more is better) and computing constraints (less is better) have dictated the sample size. With the availability of monthly data in computer-readable form, and the need for a reasonably sized sample, the 60-observation, or five-year, estimation period became widely used. In fact it was so widely used many believed that it was *the* horizon. However, evidence about the importance of interval in the estimation of beta suggests that this standard may not be the best choice. We only know that we must have an adequate amount of data, without including old data that has little relevance to the current situation,[7] and to minimize the absolute deviations.

The market proxy

In earlier CAPM history, many believed that the index choice was not a particularly important issue.[8] Indexes were highly correlated;[9] hence, they were assumed to be virtually interchangeable.

Since that early lack of concern about choosing an index, our theoretical and statistical knowledge has become more sophisticated. We now know that if the proxy for the market is not fully diversified (is not a good reflection of the market for all risky assets), the market model will not properly distinguish between diversifiable and nondiversifiable risk. The result would be that we could have an informationless or wrong

[7] In addition, we must avoid some known problems, such as the Fisher effect: because some stocks are not widely traded, the end-of-week or end-of-the-day price can yield an inadequate estimate of the true price, thus biasing the estimated beta.

[8] See S. C. Myers, "The Application of Finance Theory to Public Utility Rate Cases," *Bell Journal of Economics and Management Science,* 3 (Spring 1972), 58–97.

[9] Remember that correlation is the degree of relationship between indexes. If returns moved together exactly, we would have a perfect correlation of 1.0. If they were perfectly negatively related, the correlation would be −1.0.

beta, or we could believe that non
than it actually was. Correlation a
alize index choice. But this metho
highly correlated with each other
derlying market for all risky asset
impossible, and tests using an inc
important statement about the d
still incomplete indexes was made

Although these problems ar
retical than practical. First, if all
mately equivalent beta results or
our results. Furthermore, indexes
and thus they at least provide sor

Therefore, the real question i
affects results. The data in Exhi
practical side of the index questi
Jones Industrial Average (DJIA), t
Value-Weighted Index in calculat
estimates were quite similar; but f
see that the choice of an index is
practical one as well.

Stocks alone make up the in
broader index is still in the exper
gave us some idea of the changes

Exhil

Alphas and Betas of Ran

	GMI	
	α	β
Cerro	−0.638	1.308
Falstaff Brewing	−1.426	1.028
Graniteville	−0.425	1.051
Scott Foresman	−0.099	1.130
Hall WF	−0.202	0.695
Gulf Oil	−0.236	0.528
Fedders	2.035	1.302
AMP	1.196	0.784
Chrysler	−0.747	1.107
Zayre	2.369	1.471

Source: G. M. Frankfurter, "The Effect of Mark
Portfolio Selection Model," *Journal of Finance,* 3

Item 14, page 17

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heory to Public Utility Rate Cases,"
3 (Spring 1972), 58-97.
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beta, or we could believe that nonsystematic risk was larger or smaller than it actually was. Correlation analysis was used in the past to rationalize index choice. But this method is not enough: two indexes could be highly correlated with each other and still not be correlated with the underlying market for all risky assets. Thus, finding a true proxy may be impossible, and tests using an incorrect index would be useless. A more important statement about the dangers of using widely acceptable but still incomplete indexes was made by Roll (1977).

Although these problems are disturbing, they may be more theoretical than practical. First, if all our available indexes yield approximately equivalent beta results or ranks, we can have some confidence in our results. Furthermore, indexes are what investors use as benchmarks, and thus they at least provide some practical information.

Therefore, the real question is whether the choice of index actually affects results. The data in Exhibit 4-11 provide a perspective on the practical side of the index question. Frankfurter (1976) used the Dow Jones Industrial Average (DJIA), the Standard & Poor 425, and a Scholes Value-Weighted Index in calculating betas. For some stocks, the beta estimates were quite similar; but for other stocks, they were not. We can see that the choice of an index is not only a theoretical problem but a practical one as well.

Stocks alone make up the indexes used by Frankfurter. Building a broader index is still in the experimental stage, although Sharpe (1973) gave us some idea of the changes that might occur as our sophistication

Exhibit 4-11

Alphas and Betas of Randomly Selected Securities

	GMI		S&P 425		DJIA		
	α	β	α	β	α	β	Mean Return
Cerro	−0.638	1.308	−0.270	1.612	−0.319	1.547	0.358
Falstaff Brewing	−1.426	1.028	−1.083	1.228	−1.132	1.116	−0.644
Graniteville	−0.425	1.051	−0.031	1.133	−0.136	1.169	0.375
Scott Foresman	−0.099	1.130	0.288	1.321	0.269	1.125	0.761
Hall WF	−0.202	0.695	0.002	0.909	−0.075	0.920	0.327
Gulf Oil	−0.236	0.528	−0.163	0.920	−0.201	0.840	0.167
Fedders	2.035	1.302	2.359	1.861	2.284	1.697	3.026
AMP	1.196	0.784	1.403	1.000	1.367	0.975	1.793
Chrysler	−0.747	1.107	−0.513	1.701	−0.628	1.657	0.096
Zayre	2.369	1.471	2.867	1.738	2.768	1.649	3.489

Source: G. M. Frankfurter, "The Effect of Market Indexes on the Ex-Post Performance of the Sharpe Portfolio Selection Model," *Journal of Finance*, 31 (June 1976), 953.

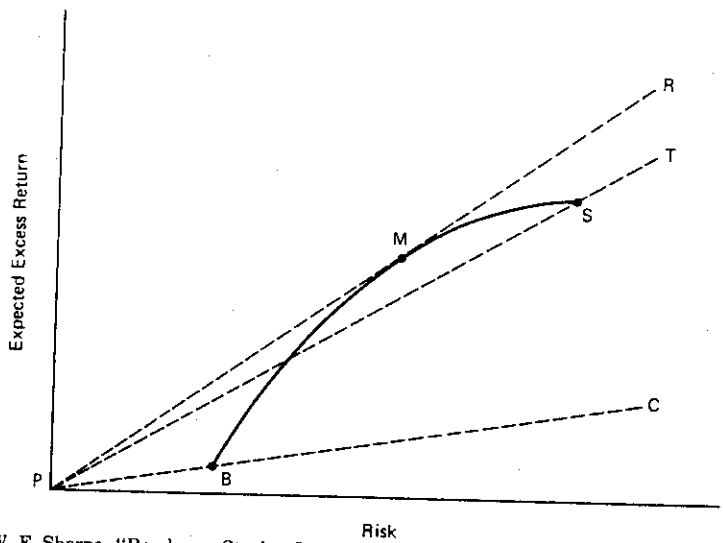
Item 14, Page 18

in creating indexes increases. Exhibit 4–12 shows the hypothetical differences suggested by Sharpe. The *PST* line is the hypothetical capital market line using stocks alone. The *PBC* line could be the line using bonds, and the *PMR* line could be the quite different result of using a combined stock-bond index. Sharpe suggests the combined indexes would result in a higher line.

While we have reasonable proxies for the stock market, we do not have the same for bonds (or for other assets), although money management organizations are developing more extensive indexes.[10] What is obvious is that there are clear differences among the markets, and, as the 1970s and 1980s have shown, each market changes over time.[11] Still data from the stock market, although limited in the assets they contain, are an available and widely used accommodation.

Exhibit 4–12

Opportunity Sets Using Different Indexes



Source: W. F. Sharpe, "Bonds vs. Stocks: Some Lessons from Capital Market Theory," *Financial Analysts Journal*, 29 (November–December 1973), 75.

[10]See, for instance, First Chicago Bank's First Chicago Investment Advisors' Multiple Markets Index, which includes large and small capitalization, and international equities, venture capital, domestic and international dollar and nondollar bonds, real estate, and cash equivalents.

[11]The relative volatility of the bond markets since the mid-1970s has been markedly higher than the volatility previously experienced.

The market model form

There is little in the acaden
ferent forms of the market model
model changes, all else staying th
not.

There are a variety of versic
ple market model:

$$R_j = \alpha$$

We have the risk-premium versio
bills to AA utility bonds for R_f.

$$R_j - R_f = \alpha_j$$

There is a less compact form of

$$R_j = \alpha_j + \beta$$

If all of these market model for
the same and the intercept term
α_j of the simple model would be
premium model and equal to th
risk-premium model.[12]

Exhibit 4–13 shows the res

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**The Results of Three \
for a Public U**

	α
Simple model	−0.0027
Risk-premium model‡	−0.0041
Multifactor‡	−0.0043

*Coefficient for R_f in the multifacto
†Coefficient for market volatility fa
‡R_f proxy is the return on Treasury

Source: D. Harrington, "The Capital Asset Pr
dissertation, 1978), 164.

[12]These models exist in both com
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Item 14, page 19

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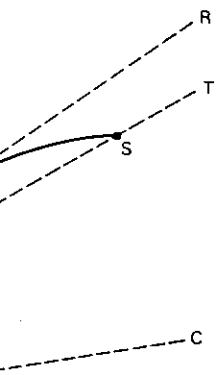

n Capital Market Theory," *Financial An-*

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ce the mid-1970s has been markedly

The market model form

There is little in the academic literature about the impact that different forms of the market model have on beta. If the form of the market model changes, all else staying the same, will the beta change? It should not.

There are a variety of versions of the market model. We have a simple market model:

$$R_j = \alpha_j + \beta_j R_m + \epsilon_j$$

We have the risk-premium version, where we could use anything from T-bills to AA utility bonds for R_f.

$$R_j - R_f = \alpha_j + \beta_j(R_m - R_f) + \epsilon_j$$

There is a less compact form of the risk-premium version:

$$R_j = \alpha_j + \beta_{j1}(R_f) + \beta_{j2}R_m + \epsilon_j$$

If all of these market model forms are equivalent, the betas should be the same and the intercept terms should be equal. This means that the α_j of the simple model would be equal to the term α_j, $+ R_f$ of the risk-premium model and equal to the term $\alpha_j + \beta_{j1}(R_f)$ of the less compact risk-premium model.[12]

Exhibit 4–13 shows the results of using the different models in cal-

Exhibit 4–13

The Results of Three Versions of the Market Model for a Public Utility (Monthly Data)

	α	β_1*	β_2†	R^2
Simple model	−0.0027		0.544	.467
Risk-premium model‡	−0.0041		0.615	.378
Multifactor‡	−0.0043	0.17	0.612	.497

*Coefficient for R_f in the multifactor model.
†Coefficient for market volatililty factor.
‡R_f proxy is the return on Treasury bills.

Source: D. Harrington, "The Capital Asset Pricing Model and Regulated Utility Cost of Equity" (Ph.D. dissertation, 1978), 164.

[12]These models exist in both compound (geometric) form and arithmetic form. Because market returns are normally reported as compound rates of return, many prefer the geometric form.

Item 14, page 20

culating betas for one utility. And neither the betas nor the intercepts are equal from model to model. These forms are all variations of the basic CAPM. None have been modified to deal directly with the problems of misspecification.

We have considered the results of changing some of the simple parameters that are necessary for estimating a beta using historical data. The choice of each input changes the output, and the size of the difference is enough to cause concern. How should betas be measured, using history? The disconcerting answer is that we do not know. Finding the best way to measure beta is not merely a theoretical problem; it is a practical one. The search still requires trial-and-error experimentation.

II. TESTING THE STABILITY OF HISTORICAL BETAS

Now that we have outlined some of the problems involved in measuring historical betas, let us return to the more fundamental issue of the usefulness of history in predicting the future. If historical betas are reasonable predictors of future betas, then we should definitely spend the time required to refine our statistical tools. If historical betas are not reasonable predictors, then we must look for a better way to make beta forecasts. Because the use of historical data to predict the future assumes that betas are stable over time, most tests of the usefulness of historical betas have focused on the issue of the stability of historical betas. If historical betas remain relatively unchanged over time, then historical betas may be useful surrogates for forecasted (ex ante) betas. If, however, historical betas vary over time, then they will have little predictive ability.

What are the results of tests of the stability of historical betas?

1. ANALYSIS OF INDIVIDUAL SECURITIES' BETAS

Bey (1983) used a sophisticated statistical approach to look at the stability of the betas of public utility and industrial stocks. Exhibit 4-14 shows some of his results for individual (not portfolios) utility stocks. For different industries, Exhibit 4-15 shows mean betas and the proportion that were stationary. Note that the ordinary-least-squares (OLS) betas change quite dramatically from period to period—they were not stable.

The average beta is an imprecise estimate. Blume (1971) reported that although the market's average beta was 1.0 (as we would expect), the average standard error (0.30) resulted in a 95 percent confidence in-

E

Beta and Mar

UTILITY NAME	1/60–12/(
Consolidated Edison Co. N.Y. Inc.	0.59*
Consolidated Natural Gas. Co.	0.59
Consumers Power Co.	0.69
Dayton Power & Light Co.	0.76
Delmarva Power & Light Co.	0.85
Detroit Edison Co.	0.64
Duquesne Light Co.	0.52
El Paso Co.	0.69
Empire District Electric Co.	0.67
Enserch Corp.	0.47

*Nonstationary beta for $\alpha = 0.0$

Source: Roger P. Bey, "Market Model Stati *and Quantitative Analysis,* 18 (March 1983).

terval from 0.4 to 1.6. (That is erage historical beta was betw a beta estimate made with con his finding that, over time, beta of 1.0. We are not now sure w changes in the riskiness of the the phenomenon is clear. Exhi documented. From the first to one exception—becomes closer

As a result of this finding, producers began to adjust thei to improve their forecasts. Ho (1979) believed that this beta d onstrated that betas drift sim they are calculated moving for 4-17 shows their results. Fron their OLS and their Bayesian-a drift appears to be a statistica help analysts to determine the to adjust forecasts.

Item 14, page 21

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was 1.0 (as we would expect),
in a 95 percent confidence in-

Exhibit 4-14

Beta and Market Model Stationarity

	ESTIMATED OLS BETAS			
UTILITY NAME	1/60–12/64	1/65–12/69	1/70–12/74	1/75–12/79
Consolidated Edison Co. N.Y. Inc.	0.59*	0.46*	0.55*	1.12*
Consolidated Natural Gas. Co.	0.59	0.61	0.39*	0.89
Consumers Power Co.	0.69	0.67	0.59*	1.04*
Dayton Power & Light Co.	0.76	0.99	0.39	0.78*
Delmarva Power & Light Co.	0.85	0.82	0.72*	0.75*
Detroit Edison Co.	0.64	0.50	0.55*	0.98*
Duquesne Light Co.	0.52	0.27	0.46	0.84*
El Paso Co.	0.69	0.54*	0.84*	1.00
Empire District Electric Co.	0.67	0.58	0.25*	0.57
Enserch Corp.	0.47	0.94*	1.02*	0.62

*Nonstationary beta for $\alpha = 0.05$.

Source: Roger P. Bey, "Market Model Stationarity of Individual Public Utilities," *Journal of Finance and Quantitative Analysis*, 18 (March 1983), 74.

terval from 0.4 to 1.6. (That is, one can be 95 percent sure that the average historical beta was between 0.4 and 1.6.) This could not be called a beta estimate made with confidence. Blume must also be credited for his finding that, over time, betas tend to drift toward the market average of 1.0. We are not now sure whether this movement is caused by true changes in the riskiness of the securities or by statistical problems, but the phenomenon is clear. Exhibit 4-16 shows the problem that Blume documented. From the first to the second period, each beta—with only one exception—becomes closer to 1.0.

As a result of this finding, called beta drift, several commercial beta producers began to adjust their forecasted betas toward 1.0 in an effort to improve their forecasts. However, Elgers, Haltiner, and Hawthorne (1979) believed that this beta drift was a statistical aberration and demonstrated that betas drift similarly toward 1.0, regardless of whether they are calculated moving forward or backward through time. Exhibit 4-17 shows their results. From periods 1 to 2 and from periods 2 to 1 their OLS and their Bayesian-adjusted betas drift toward 1.0. Thus, the drift appears to be a statistical aberration. It cannot be relied upon to help analysts to determine the stability of calculated historical betas or to adjust forecasts.

Item 14, page 22

Exhibit 4–15

Mean β and Percentage of Securities with Market Model Nonstationarity

SIC CODE	NO. OF SECURITIES	MEAN BETA ESTIMATE				PERCENTAGE OF SECURITIES NONSTATIONARY*			
		1/60–12/64	1/65–12/69	1/70–12/74	1/75–12/79	1/60–12/64	1/65–12/69	1/70–12/74	1/75–12/79
10	11	0.57	0.78	0.86	0.97	18	18	36	36
20	32	0.94	1.04	0.93	1.00	34	13	28	47
22	10	0.96	1.41	1.06	1.37	50	0	20	70
26	14	1.10	1.15	1.03	1.19	29	21	36	57
28	42	1.22	1.17	1.07	1.06	29	19	36	38
29	18	0.82	0.89	0.99	0.80	44	44	22	39
30	12	1.16	1.26	1.08	1.20	50	33	58	58
32	16	1.08	1.47	1.07	1.34	38	44	25	56
33	27	1.17	1.27	1.05	1.21	30	22	19	44
34	14	1.03	1.24	0.97	1.29	36	43	14	43
35	41	1.17	1.28	1.16	1.32	24	22	41	34
36	29	1.36	1.30	1.24	1.35	38	10	48	48
37	34	1.04	1.45	1.11	1.52	24	24	38	41
38	10	1.34	1.38	1.33	1.42	40	20	10	50
40	10	1.16	1.07	1.09	1.03	40	20	30	30
45	10	1.61	1.72	1.80	1.62	40	30	10	50
49	89	0.71	0.63	0.65	0.78	21	17	41	62
53	13	0.86	1.09	1.14	1.21	23	8	31	69
67	21	0.93	1.18	0.99	1.09	24	33	38	57
Total	453					30	22	34	49

*$\alpha = 0.05$.

Source: Roger P. Bey, "Market Model Stationarity of Individual Public Utilities," *Journal of Finance and Quantitative Analysis*, 18 (March 1983), 76.

Item 14, Page 23

Exhibit 4–16

Estimated Beta Coefficients for Portfolios of 100 Securities in Two Successive Periods

36	29	1.3(	1.30	1.24	1.35	38	10	48	3
37	34	1.04	1.45	1.11	1.52	24	24	38	41
38	10	1.34	1.38	1.33	1.42	40	20	10	50
40	10	1.16	1.07	1.09	1.03	40	20	30	30
45	10	1.61	1.72	1.80	1.62	40	30	10	50
49	89	0.71	0.63	0.65	0.78	21	17	41	62
53	13	0.86	1.09	1.14	1.21	23	8	31	69
67	21	0.93	1.18	0.99	1.09	24	33	38	57
Total	453					30	22	34	49

*$\alpha = 0.05$.

Source: Roger P. Bey, "Market Model Stationarity of Individual Public Utilities," *Journal of Finance and Quantitative Analysis,* 18 (March 1983), 76.

Exhibit 4–16

Estimated Beta Coefficients for Portfolios of 100 Securities in Two Successive Periods

PORT-FOLIO	7/26–6/33	7/33–6/40	7/33–6/40	7/40–6/47	7/40–6/47	7/47–6/54	7/47–6/54	7/54–6/61	7/54–6/61	7/61–6/68
1	0.528	0.610	0.394	0.573	0.442	0.593	0.385	0.553	0.393	0.620
2	0.898	1.004	0.708	0.784	0.615	0.776	0.654	0.748	0.612	0.707
3	1.225	1.296	0.925	0.902	0.746	0.887	0.832	0.971	0.810	0.861
4			1.177	1.145	0.876	1.008	0.967	1.010	0.987	0.914
5			1.403	1.354	1.037	1.124	1.093	1.095	1.138	0.995
6					1.282	1.251	1.245	1.243	1.337	1.169

Source: M. Blume, "On the Assessment of Risk," *Journal of Finance,* 26 (March 1971), 7.

Item 14, Page 27

Exhibit 4–17

Portfolio Betas in Successive Time Periods

PORTFOLIO NUMBER	PERIOD 1 (7/54–6/61)		PERIOD 2 (7/61–6/68)	PORTFOLIO NUMBER	PERIOD 2 (7/61–6/68)		PERIOD 1 (7/54–6/61)
	OLS	Adjusted	OLS		OLS	Adjusted	OLS
1	0.381	0.522	0.592	1	0.393	0.515	0.558
2	0.581	0.676	0.634	2	0.566	0.653	0.709
3	0.774	0.825	0.780	3	0.727	0.782	0.825
4	0.950	0.962	0.872	4	0.855	0.884	0.921
5	1.093	1.072	0.940	5	0.974	0.980	1.149
6	1.252	1.194	1.061	6	1.139	1.111	1.177
7	1.621	1.480	1.286	7	1.510	1.408	1.315

Source: P. T. Elgers, J. R. Haltiner, and W. H. Hawthorne, "Beta Regression Tendencies: Statistical and Real Causes," *Journal of Finance*, 34 (March 1979), 262.

In another early study of bet
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In reviewing such results, o
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Oil Company stock, which is one
the left in Exhibit 4–19 are grap
percent of the changes in return
in market returns. The remainde
came from unsystematic sources
firm or industry. Perhaps Shell h

Ex

**Percentage of Variance (R^2) Ex
(Market Factor) fr**

COMPANY NAME
Allegheny Power System
Allied Chemical
American Motors
American Tobacco Co.
Atchison, Topeka and Santa Fe
Chesapeake and Ohio
Coca-Cola
Consolidated Edison of NY
Detroit Edison
General Electric
IBM
ITT
Maytag
Pacific Gas and Electric
Shell Oil
Southern California Edison
Average of 94 companies

Source: Adapted from S. C. Meyers, "The
Security Price Behavior," *Accounting Revie*

Item 14, page 25

In another early study of beta stability, Meyers (1973) hypothesized that if the amount of variance explained by the market varied from one period to the next, then betas would not be stationary from one period to another. Exhibit 4–18 shows some of Meyers's results. The portfolio beta, as we would expect, was quite stable. Virtually the same variance occurred in both periods, showing that beta estimation errors canceled each other. For many individual securities, however, the amount of the returns' behavior explained by the market (the R^2) was quite different from period to period. For instance, Coca-Cola showed what Meyers would call instability.

In reviewing such results, one must use logic. To demonstrate Meyers's contention, let us graphically represent the variances for the Shell Oil Company stock, which is one of the stocks listed in Exhibit 4–18. To the left in Exhibit 4–19 are graphed the results for the first period: 34.6 percent of the changes in returns from this stock reflected the changes in market returns. The remainder of the changes in the stock's returns came from unsystematic sources—from factors specifically related to the firm or industry. Perhaps Shell had unexpected good fortune in securing

Exhibit 4–18

Percentage of Variance (R^2) Explained by First Principal Component (Market Factor) from Stock Price Relatives

COMPANY NAME	AUGUST 1952–AUGUST 1960	JANUARY 1961–DECEMBER 1967
Allegheny Power System	46.2	14.1
Allied Chemical	43.8	44.9
American Motors	5.2	15.3
American Tobacco Co.	11.0	40.7
Atchison, Topeka and Santa Fe	60.0	40.4
Chesapeake and Ohio	50.0	53.3
Coca-Cola	11.1	29.2
Consolidated Edison of NY	11.1	8.5
Detroit Edison	14.3	15.4
General Electric	34.3	27.6
IBM	25.8	45.9
ITT	37.8	46.2
Maytag	25.0	26.0
Pacific Gas and Electric	30.0	26.4
Shell Oil	34.6	6.3
Southern California Edison	17.9	22.9
Average of 94 companies	33.4	33.5

Source: Adapted from S. C. Meyers, "The Stationarity Problem in the Use of the Market Model of Security Price Behavior," *Accounting Review*, 48 (April 1973), 320.

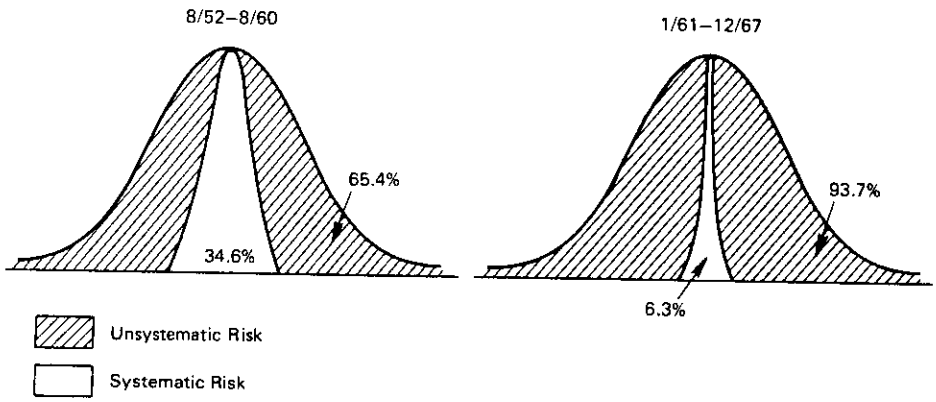
4	0.950		0.872	4	0.885	0.884		0.921
5	1.093		0.940	5	0.974	0.980		1.149
6	1.252	1.[illegible]4	1.061	6	1.139	1.111		1.177
7	1.621	1.480	1.286	7	1.510	1.408		1.315

Source: P. T. Elgers, J. R. Haltiner, and W. H. Hawthorne, "Beta Regression Tendencies: Statistical and Real Causes," *Journal of Finance*, 34 (March 1979), 262.

Item 19, page 26

Exhibit 4–19

Percentage of Total Risk from Systematic and Unsystematic Sources for Shell Oil Company



a new source of oil or reducing delivery costs. In the second period (graphed to the right), 6.3 percent of the changes were related to systematic factors. Does this result mean that the beta changed? There is no way to tell from these data. We can say that the returns from one company's stock were more influenced by marketwide forces in one period than in another, but we can say nothing about the beta.

Meyer's results showed that the portfolio beta was relatively stable. Blume (1971, 1975) and Porter and Ezzell (1975) also looked at the stability of portfolios. Using two different methods for forming portfolios, they had what appeared to be conflicting results: increasing the size of the portfolio may or may not increase the stability of beta. After correcting for the different ways in which Blume and Porter and Ezzell created their portfolios, Alexander and Chervany (1980) found that their results were not in conflict—beta was more stable in more diversified portfolios. In addition, they found that most of the improvement in beta stability occurred by the point where there were ten securities in the portfolio. Added securities lent small improvements.

Thus, it appears that portfolio betas are relatively stable, and, by inference, easier to predict than the betas for individual stocks.

2. ANALYZING RISK CLASSES

Another way of assessing beta stability is to look at beta rankings. The hypothesis is that if the firm stays in the same beta class from period

to period, betas could be said to b
predictors. Blume (1971) used tw
to test for stability. Looking at t
see the results of his test for the
68. Portfolios with only one secu
percent of the time. This means
risk class. This is a stronger resul
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shows his transition matrix, inc
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following period. Baesel himse
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classes, the range is broad. The
classes is more reliable. Confirm
vany found, in a closer examina
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In both Blume's and Baes
portfolios were more stable th
Others have confirmed these re

[13]Gordon J. Alexander, and N. I
Beta," *Journal of Financial and Quanti*
[14]R. C. Klemkosky and J. D. Mar
of Finance, 30 (September 1975), 1123–
beta levels in testing various-sized por
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(October 1975), 365–71, also studied th

Item 14, page 27

d Unsystematic Sources

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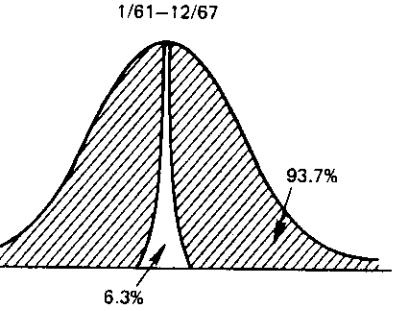

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vany (1980) found that their
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are relatively stable, and, by
for individual stocks.

to look at beta rankings. The
same beta class from period

to period, betas could be said to be relatively stable and thus reasonable predictors. Blume (1971) used two similar methods of ranking the betas to test for stability. Looking at the last column in Exhibit 4-20, we can see the results of his test for the period 1954-61 versus the period 1961-68. Portfolios with only one security remained in the same risk class 62 percent of the time. This means that 38 percent of the stocks changed risk class. This is a stronger result than those obtained from studies that found betas for individual securities were unstable. Larger portfolios were more apt to remain in the same risk class and portfolios with 50 securities had very accurate risk rankings; only 3 percent of these portfolios changed rank between the two periods. Of further interest is the fact that Blume found virtually no shares that moved in a direction opposite to that of the market (there were almost no negative correlations).

Baesel (1974), using another technique called a *transition matrix,* further tested the stability of risk classes. Baesel classified securities into five risk classes and then tested them in the next period to see whether the securities remained in the same risk class. Exhibit 4-21 shows his transition matrix, indicating the stability of securities' risk classes from one period to the next. Each number in the table represents the frequency with which securities fell into a single risk group in both periods. For instance, 12 percent of the securities in class 1, period t, remained in class 1 for the next period ($t + 1$). Conversely, 88 percent of those in class 1 in the first period changed to a different class in the following period. Baesel himself characterized his results as strong enough to say that betas for single securities were not random, but that is all. Admittedly, Baesel's grouping technique does have some problems. Because classes 1 and 5 include all those falling outside the three central classes, the range is broad. The information regarding the three central classes is more reliable. Confirming this suspicion, Alexander and Chervany found, in a closer examination of the behavior of the betas in the extreme groups, that "larger changes in the beta occurred in the extreme pentiles than in the interior pentiles for all but one case."[13]

In both Blume's and Baesel's tests, betas for randomly generated portfolios were more stable than were betas for individual securities. Others have confirmed these results.[14]

[13]Gordon J. Alexander, and N. L. Chervany, "On the Estimation and Stability of Beta," *Journal of Financial and Quantitative Analysis,* 15 (March 1980), 125.

[14]R. C. Klemkosky and J. D. Martin, "The Adjustment of Beta Forecasts," *Journal of Finance,* 30 (September 1975), 1123-28, used standard errors for the betas rather than beta levels in testing various-sized portfolios. They showed that the standard errors decreased as the portfolio size increased. This result indicates that betas for larger portfolios captured or explained more of the historical variation. R. Burr Porter and J. R. Ezzell, in "A Note on the Predictive Ability of Beta Coefficients," *Journal of Business Research,* 3 (October 1975), 365-71, also studied the question.

Exhibit 4–20

Product Moment and Rank-Order Correlation of Betas for Portfolios of *N* Securities

NUMBER OF SECURITIES PER PORTFOLIO	7/26–6/33 and 7/33–6/40		7/33–6/40 and 7/40–6/47		7/40–6/47 and 7/47–6/54		7/47–6/54 and 7/54–6/61		7/54–6/61 and 7/61–6/68	
	P.M.	Rank	P.M.	Rank	P.M.	Rank	P.M.	Rank	P.M.	Rank
1	0.63	0.69	0.62	0.73	0.59	0.65	0.65	0.67	0.60	0.62
2	0.71	0.75	0.76	0.83	0.72	0.79	0.76	0.76	0.73	0.74
4	0.80	0.84	0.85	0.90	0.81	0.89	0.84	0.84	0.84	0.85
7	0.86	0.90	0.91	0.93	0.88	0.93	0.87	0.88	0.88	0.89
10	0.89	0.93	0.94	0.95	0.90	0.95	0.92	0.93	0.92	0.93
20	0.93	0.99	0.97	0.98	0.95	0.98	0.95	0.96	0.97	0.98
35	0.96	1.00	0.98	0.99	0.95	0.99	0.97	0.98	0.97	0.97
50	0.98	1.00	0.99	0.98	0.98	0.99	0.98	0.98	0.98	0.97

Source: M. Blume, "On the Assessment of Risk," *Journal of Finance*, 26 (March 1971), 7.

Exh

Twelve-Month Estimatic

RISK CLASS PERIOD *t*	R 1	2
1	.12	.1
2	.15	.2
3	.18	.1
4	.22	.2
5	.33	.2

Source: J. Baesel, "On the Assessment of Risk (December 1974), 1492.

3. ANALYZING STANDARD ERRORS

Klemkosky and Martin (1975) ex to decrease as the number of secu increased. They broke the mean- inefficiency, and randomness. *Bi* mates or underestimates the act prediction has positive errors for betas. *Random* errors are the un

In Exhibit 4–22 we see tha random portfolios for July 1962– showed little bias but significa tended to be correlated with the l forecast the actual result, where underforecasts. Random errors d because random errors could off

Klemkosky and Martin tes that practitioners were using to r to inefficiency. Exhibit 4–23 sh ment, tested by Klemkosky an for the security with the average firm issuing the security in ques

[15]This same mean-squared error t the length of the estimation period on t found that the longer the period and the error. The improvement was largely due and J. K. Zumwalt, "Impact of Alternati Stability of Security and Portfolio Bet 1981), 321–25.

Item 14, page 29

Exhibit 4–21

Twelve-Month Estimation Interval Transition Matrix

RISK CLASS PERIOD *t*	RISK CLASS PERIOD t + 1				
	1	2	3	4	5
1	.12	.16	.17	.21	.34
2	.15	.21	.22	.21	.23
3	.18	.18	.23	.21	.13
4	.22	.23	.19	.21	.12
5	.33	.22	.19	.14	.12

Source: J. Baesel, "On the Assessment of Risk: Some Further Considerations," *Journal of Finance,* 29 (December 1974), 1492.

3. ANALYZING STANDARD ERRORS

Klemkosky and Martin (1975) examined what caused the size of errors to decrease as the number of securities in randomly generated portfolios increased. They broke the mean-squared error into three portions: bias, inefficiency, and randomness. *Bias* indicates that a prediction overestimates or underestimates the actual result. *Inefficiency* indicates that a prediction has positive errors for low betas and negative errors for high betas. *Random* errors are the unexplainable errors.

In Exhibit 4–22 we see that the betas of Klemkosky and Martin's random portfolios for July 1962–June 1967 versus July 1967–June 1972 showed little bias but significant inefficiency. Most prediction errors tended to be correlated with the beta: for low-beta stocks, the betas overforecast the actual result, whereas for high-beta stocks, the betas were underforecasts. Random errors decreased as the portfolio size increased, because random errors could offset one another in larger portfolios.[15]

Klemkosky and Martin tested a variety of adjustment techniques that practitioners were using to reduce the portion of the error ascribable to inefficiency. Exhibit 4–23 shows their results. The Bayesian adjustment, tested by Klemkosky and Martin, combined the beta estimated for the security with the average beta for a group of firms similar to the firm issuing the security in question. For instance, if we were predicting

[15]This same mean-squared error technique has been used to measure the effect of the length of the estimation period on the quality of the forecast. Eubank and Zumwalt found that the longer the period and the larger the portfolio, the smaller the mean-squared error. The improvement was largely due to increased efficiency. See Arthur A. Eubank, Jr., and J. K. Zumwalt, "Impact of Alternative Length Estimation and Prediction Periods on the Stability of Security and Portfolio Betas," *Journal of Business Research,* 9 (September 1981), 321–25.

Item 14, page 30

Exhibit 4–22

Source of the Mean-Squared Errors in Beta Predictions, July 1962–June 1967 vs. July 1967–June 1972

	PORTFOLIO SIZE (NUMBER OF SECURITIES)				
	1	3	5	7	10
MSE	.16122	.08363	.06880	.05982	.05465
Portions of MSE due to:					
Bias	.00093	.00100	.00093	.00097	.00119
Inefficiency	.03992	.03947	.03993	.03975	.03800
Random errors	.12036	.04314	.02792	.01908	.01545

Source: Adapted from R. C. Klemkosky and J. D. Martin, "The Adjustment of Beta Forecasts," *Journal of Finance*, 30 (September 1975), 1125.

an electric utility's beta, our choice might be the average beta for all utilities or that for Moody's 24 Electrics. The Blume adjustment combines the current beta estimate with the prior-period betas. The "MLPFS" is the Merrill Lynch technique of weighting the calculated beta with the market beta of one.

As we can see, Blume's technique reduces inefficiency, and the Bayesian adjustment reduces bias. On the whole, however, the total error is largely caused by random errors, and little besides increasing the portfolio size can be done about that. The law of large numbers is of slight comfort to those evaluating individual securities.

An active portfolio manager might like to know how many securities it takes to control ex ante portfolio betas, to, say, ±2 percent of their weighted average. The surprising answer is that it takes more securities to control beta mismeasurement than to control unsystematic risk in terms of their impact on portfolios. The number is about 800—a number large enough to seriously dilute any benefits from active management.

Randomly composed portfolios reduce beta instability. Is this statement also true for structured portfolios? Beta reliability and stability, of course, improve, but not as much as they improve by randomly composed portfolios. The practical problems of beta instability, in short, remain serious for the practicing manager with active management objectives for his or her portfolio.

Beta is unstable, as much of the evidence clearly shows. In fact, a number of researchers, using quite different methods for estimating beta, have found that much of the regression error (the residual risk), and the relationship between the residual risk and beta, may come from misestimating a nonstationary beta.

Exhibit 4–23

Forecast Errors of Adjusted Versus Unadjusted Beta Coefficients

	INDIVIDUAL SECURITIES				PORTFOLIOS (SIZE TEN)			
	Unadjusted	Bayesian	Blume's	MLPFS	Unadjusted	Bayesian	Blume's	MLPFS
Period 2								
Mean Square Error (MSE)	.18387	.13111	.11123	.11015	.08544	.03460	.01259	.01153
Portion of MSE due to:								
Bias	.00084	.00004	.00183	.00075	.00095	.00006	.00178	.00072
Inefficiency	.07367	.02372	.00004	.00004	.07370	.02355	.00002	.00002

Item 14, page 31

-22

r **in Beta Predictions, 967–June 1972**

IZE (NUMBER OF SECURITIES)		
5	7	10
.06880	.05982	.05465
.00093	.00097	.00119
.03993	.03975	.03800
.02792	.01908	.01545

n, "The Adjustment of Beta Forecasts," *Jour-*

ght be the average beta for all
s. The Blume adjustment com-
the prior-period betas. The
ue of weighting the calculated

reduces inefficiency, and the
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like to know how many securi-
tas, to, say, ±2 percent of their
at it takes more securities
ontrol unsystematic risk in
umber is about 800—a number
fits from active management.
ce beta instability. Is this state-
Beta reliability and stability, of
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of beta instability, in short, re-
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dence clearly shows. In fact, a
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	INDIVIDUAL SECURITIES				PORTFOLIOS (SIZE TEN)			
	Unadjusted	Bayesian	Blume's	MLPFS	Unadjusted	Bayesian	Blume's	MLPFS
Period 2								
Mean Square Error (MSE)	.18387	.13111	.11123	.11015	.08544	.03460	.01259	.01153
Portion of MSE due to:								
Bias	.00084	.00004	.00183	.00075	.00095	.00006	.00178	.00072
Inefficiency	.07367	.02372	.00004	.00004	.07370	.02355	.00002	.00002
Random error	.10935	.10735	.10936	.10936	.01078	.01100	.01078	.01078
Period 3								
Mean Square Error (MSE)	.12385	.11609	.12207	.12293	.02332	.01356	.02155	.02238
Portion of MSE due to:								
Bias	.00018	.00011	.00000	.00087	.00018	.00011	.00000	.00083
Inefficiency	.00730	.00043	.00571	.00571	.00725	.00047	.00567	.00567
Random error	.11636	.11555	.11636	.11636	.01587	.01298	.01587	.01587
Period 4								
Mean Square Error (MSE)	.16122	.13082	.14660	.14934	.05465	.02018	.04215	.04485
Portion of MSE due to:								
Bias	.00093	.00000	.00263	.00537	.00119	.00000	.00252	.00522
Inefficiency	.03992	.00981	.02361	.02361	.03800	.00980	.02418	.02418
Random error	.12036	.12101	.12036	.12036	.01545	.01037	.01545	.01546

Source: R. C. Klemkosky and J. D. Martin, "The Adjustment of Beta Forecasts," *Journal of Finance*, 30 (September 1975), 1127.

Item 14, page 32

Typically we have estimated beta from history, using a fixed-coefficient model like ordinary-least-squares regression. These models estimate one beta over time. Using a time-varying model, one where the beta is allowed to vary over time, Chen (1981) found that "the use of the OLS method (or fixed-coefficient model) will overestimate the portfolio residual risk if individual security beta coefficients are changing over time."[16] Once Chen removed the beta variability from the residual risk, the residual risks were stationary and the relationship between residual risk and beta was eliminated.[17]

The time-varying models do appear to eliminate some of the problems that unstable betas create. As for creating a beta coefficient that can be used to estimate future returns, however, these models have their limitations.

Kryzanowski and To (1984) believe that much of the cause of beta instability is not real instability at all. They suggest that estimates of betas using time-series analysis of historic data rely on the past returns, whereas beta is a function of the expected return. Thus, they say that "betas estimated using ex-post return data can be expected to exhibit intertemporal non-stationarity, even when the underlying ex-ante security returns are serially independent and obey a stationary distribution over time."[18]

4. STABILITY OF CORRELATION COEFFICIENTS

A correlation coefficient (R) is an ingredient needed to estimate a beta. If the correlation coefficient is unpredictable, then researchers believe that it would be difficult to say that the beta is stable or predictable. Elton, Gruber, and Urich (1978) looked at six methods of estimating the correlation coefficients. They did not break their results down into error components, as Klemkosky and Martin did, but they did test some interesting methods of predicting correlations. The methods tested, which were different from those in the Klemkosky-Martin study, were the following:

1. The overall mean, a simple average correlation coefficient for the stocks included in the test

[16]Son-Nan Chen, "Beta Nonstationarity, Portfolio Residual Risk and Diversification," *Journal of Financial and Quantitative Analysis*, 16 (March 1981), 95–112.

[17]For a study using another technique to adjust betas and reduce residual error, see Lawrence Fisher and Jules Kamin, "Forecasting Systematic Risk: Estimates of 'Raw' Beta That Take Account of the Tendency of Beta to Change and the Heteroskedasticity of Residual Returns," *Journal of Financial and Quantitative Analysis*, 20 (June 1985), 127–50.

[18]Lawrence Kryzanowski and Minh Chau To, "The Telescopic Effect of Past Return Realizations on Ex-Post Beta Estimates," *Financial Review*, 19 (March 1984), 1.

2. A perfect correlation of
3. The Vasicek method, sim viously
4. The full historical metho years of data for the par

Their results, shown in Exhi riods studied, the overall mean correlations—better than the mc *mean* is a very cynical method of that the best forecast is just an a efforts to refine the estimate for

In a more recent study of a services, Harrington (1981) found measure of forecast skill. Althou some did perform better than otl results for a sample of utility st results are those for a forecast ho of periods and samples were tes errors is similar. The study also CAPM framework to forecast re difficult to forecast.

Thus, we find that betas fc larly stable, nor do most securit one period to another. Analysis though some components of erro standard error can be lessened on folio. Finally, we find that the b

Exi

Average Absolute Error* for

FIRST FIVE YEARS		SECON
1. Overall Mean	.1169	1. Overall
2. Blume Beta	.1270	2. Blume
3. Vasicek Beta	.1289	3. Unadju
4. Unadjusted Beta	.1348	4. Full Hi
5. Beta = 1	.1378	5. Vasicek
6. Full Historical	.1436	6. Beta =

*All differences are statistically sig

Source: E. J. Elton, M. J. Gruber, and T. J. U 1978), 1378.

Item 14, page 33

a from history, using a fixed-
re- regression. These models es-
ring model, one where the
found that "the use of the
will overestimate the portfolio
coefficients are changing over
riability from the residual risk,
e relationship between residual

to eliminate some of the prob-
creating a beta coefficient that
owever, these models have their

that much of the cause of beta
They suggest that estimates of
c data rely on the past returns,
ed return. Thus, they say that
ata can be expected to exhibit
n the underlying ex-ante secu-
obey a stationary distribution

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ent needed to estimate a beta.
table, then researchers believe
e beta is stable or predictable.
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ky-Martin study, were the fol-

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is, 16 (March 1981), 95-112.
st betas and reduce residual error, see
tematic Risk: Estimates of 'Raw' Beta
nge and the Heteroskedasticity of Re-
ive Analysis, 20 (June 1985), 127-50.
"The Telescopic Effect of Past Return
Review, 19 (March 1984), 1.

2. A perfect correlation of 1.0
3. The Vasicek method, similar to the Bayesian method described previously
4. The full historical method, which uses the average coefficient of five years of data for the particular stock or portfolio

Their results, shown in Exhibit 4-24, indicate that in both time periods studied, the overall mean was the superior method of predicting correlations—better than the more sophisticated methods. The *overall mean* is a very cynical method of forecasting. It is tantamount to saying that the best forecast is just an average for the whole sample. Any added efforts to refine the estimate for a single security are fruitless.

In a more recent study of a variety of commercially available beta services, Harrington (1981) found that some services did demonstrate a measure of forecast skill. Although none of the forecasts were accurate, some did perform better than others and did so consistently. The study results for a sample of utility stocks are shown in Exhibit 4-25. These results are those for a forecast horizon of three years. Although a number of periods and samples were tested in the study, the magnitude of the errors is similar. The study also looked at the use of these betas in the CAPM framework to forecast returns and found those were even more difficult to forecast.

Thus, we find that betas for individual securities are not particularly stable, nor do most securities remain in the same risk class from one period to another. Analysis of mean-squared errors shows that although some components of error can be reduced, the major portion of standard error can be lessened only by adding more securities to the portfolio. Finally, we find that the best way to estimate a correlation coef-

Exhibit 4-24

Average Absolute Error* for Correlation Coefficient Forecasts

FIRST FIVE YEARS		SECOND FIVE YEARS		COMBINED	
1. Overall Mean	.1169	1. Overall Mean	.1415	1. Overall Mean	.1292
2. Blume Beta	.1270	2. Blume Beta	.1499	2. Blume Beta	.1385
3. Vasicek Beta	.1289	3. Unadjusted Beta	.1539	3. Vasicek Beta	.1419
4. Unadjusted Beta	.1348	4. Full Historical	.1545	4. Unadjusted Beta	.1444
5. Beta = 1	.1378	5. Vasicek	.1548	5. Full Historical	.1491
6. Full Historical	.1436	6. Beta = 1	.1776	6. Beta = 1	.1577

*All differences are statistically significant unless grouped by a bracket.

Source: E. J. Elton, M. J. Gruber, and T. J. Urich, "Are Betas Best?" *Journal of Finance*, 33 (December 1978), 1378.

Item 14, page 34

Exhibit 4–25

Forecast Errors from Commercially Available Beta Sources (Based on Three-Year Horizon for 52 Utilities)

	MEAN SQUARED ERROR	BIAS	INEFFICIENCY	RANDOM ERROR	MEAN FORECAST
Beta = sample mean	.086635	.047169	.006294	.033171	.6348
Beta = 1	.227116	.189320	.000773	.037023	1.0000
Market Model	.093383	.021973	.049222	.022188	.4709
Market Model (adjusted)	.091748	.028899	.031198	.031649	.5933
Merrill Lynch	.122362	.053966	.046581	.021815	.6348
Merrill Lynch (adjusted)	.135069	.079422	.033839	.021806	.7031
Barr Rosenberg (historical)	.114077	.054682	.036136	.023257	.7554
Barr Rosenberg (short-term fundamental)	.099353	.058151	.009978	.031223	.7860
Barr Rosenberg (long-term fundamental)	.116526	.076802	.008655	.031066	.8312
Value Line	.079898	.038051	.010821	.031025	.7241

Source: D. R. Harrington, "Predicting Returns Using Commercially Available Beta Forecasts" (Paper presented at the Southern Finance Association Meeting, November 1981), p. 11.

ficient is to use the average coefficient for an entire universe of stocks. If historical betas are not particularly stable and we cannot refine them significantly, they cannot be very useful in estimating future betas. After reviewing these data, one of my colleagues commented: "Stock betas are very nearly random variables with almost no economic content." Is that so?

5. IMPACT OF MACROECONOMIC CHANGE ON BETA: THE IMPACT OF INTEREST RATES

If beta changes over time, perhaps it is due to fundamental shifts in the structure of the economy—major political, social, or economic events, not just randomness. McDonald (1985) suggested that "if an extended inflationary period caused a structural shift in the market components, the significance of an inflation factor appended to the single-factor CAPM would simply reflect the rigidity of a static model."[19] Using a method that could identify any cross-sectional shifts concentrated in a single pe-

[19]Bill McDonald, "Making Sense Out of Unstable Alphas and Betas," *Journal of Portfolio Management*, Winter 1985, p. 20.

riod, he found, as shown in Exhib
in 1933, 1939–41, and 1974–75. '
nomic upheavals. On the basis of
analysts or researchers using hist
choice of a time period over whic
major periods of nonstationarity.

The major structural chan
companied by major changes in
counts for uncertainty about the
the levels of interest rates. Exhit
line is uncertain, the analyst is un
occur, and that the returns for
Distributions *X*, *Y*, and *Z* repres
assets with betas of 0.5, 1.0 and
are shown sideways, to demonst
accounted for in this risk is the p
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Some researchers have looke
changes on the systematic risk
widely used in analyzing bonds,
yield-curve shifts on the price o

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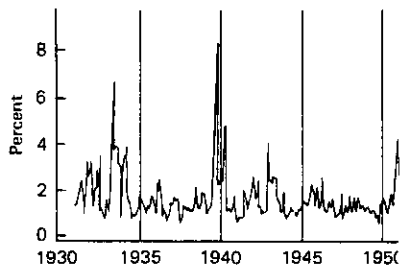


Source: Adapted from Bill McDonald, "Maki
Portfolio Management, Winter 1985, p. 21.

[20]Duration is a measure of the year
ent value terms. For a general description
and Rupinder S. Sidhu, "The Many Use
36 (July–August 1980), 58–72. See Rona
curity Risk," *Journal of Financial and Q*
for a description of duration as it applie

Item 14, page 35

25

vailable Beta Sources
or 52 Utilities)

	INEFFI-CIENCY	RAN-DOM ERROR	MEAN FORE-CAST
	.006294	.033171	.6348
	.000773	.037023	1.0000
	.049222	.022188	.4709
	.031198	.031649	.5933
	.046581	.021815	.6348
	.033839	.021806	.7031
	.036136	.023257	.7554
	.009978	.031223	.7860
	.008655	.031066	.8312
	.010821	.031025	.7241

nmercially Available Beta Forecasts" (Paper ovember 1981), p. 11.

or an entire universe of stocks. able and we cannot refine them n estimating future betas. After mmented: "Stock betas are economic content." Is that

BETA:

ue to fundamental shifts in the , social, or economic events, not sted that "if an extended infla- n the market components, the ded to the single-factor CAPM atic model."[19] Using a method fts concentrated in a single pe-

stable Alphas and Betas," *Journal of*

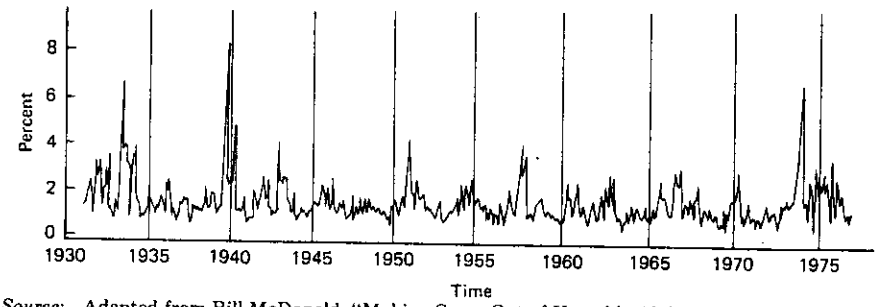
riod, he found, as shown in Exhibit 4–26, that significant shifts occurred in 1933, 1939–41, and 1974–75. These shifts coincided with major economic upheavals. On the basis of these results, McDonald suggested that analysts or researchers using historical data must exercise caution in the choice of a time period over which to estimate a beta, in order to avoid major periods of nonstationarity.

The major structural changes that McDonald identified were accompanied by major changes in interest rates. Notice that the beta accounts for uncertainty about the economic scenario, not for changes in the levels of interest rates. Exhibit 4–27 shows that because the market line is uncertain, the analyst is uncertain whether scenario A, B, or C will occur, and that the returns for higher beta assets are more uncertain. Distributions *X*, *Y*, and *Z* represent the systematic risk associated with assets with betas of 0.5, 1.0 and 1.5, respectively. Note, the distributions are shown sideways, to demonstrate the systematic risk. What is not accounted for in this risk is the potential for shifts in the overall level of interest rates, that is, changes in the intercept.

Some researchers have looked explicitly at the effect of interest rate changes on the systematic risk of assets. Borrowing a measure of risk widely used in analyzing bonds, duration,[20] a measure of the impact of yield-curve shifts on the price of a bond, they have attempted to meld

Exhibit 4–26

Percent of Securities with Significant Shift 1931–75 (monthly)

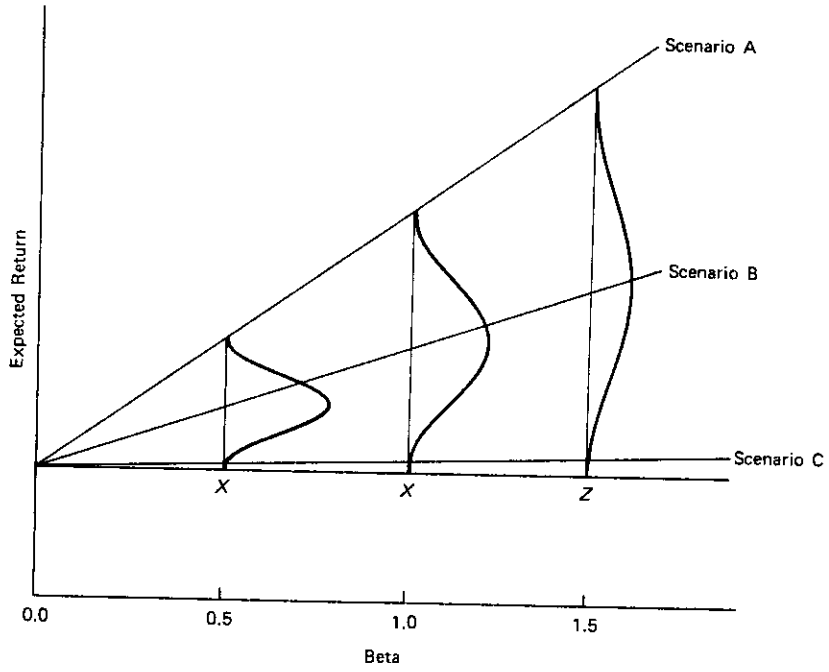


Source: Adapted from Bill McDonald, "Making Sense Out of Unstable Alphas and Betas," *Journal of Portfolio Management*, Winter 1985, p. 21.

[20]Duration is a measure of the years until half the investment will be received in present value terms. For a general description of bond duration and its uses, see Frank K. Reilly and Rupinder S. Sidhu, "The Many Uses of Bond Duration," *Financial Analysts Journal*, 36 (July–August 1980), 58–72. See Ronald Lanstein and W. F. Sharpe, "Duration and Security Risk," *Journal of Financial and Quantitative Analysis*, November 1978, pp. 653–68, for a description of duration as it applies to equities.

Exhibit 4–27

Multiscenario Risk and the CAPM



interest rate risk with the kind of risk inherent in the CAPM. Boquist, Racette, and Schlarbaum (1975) show that a security's beta can be described as a function of duration. There has been considerable discussion[21] about the relevance of this measure, whether it captures systematic, or unsystematic risk, and how it might be used. While this certainly is an innovative attempt to join two sorts of risk, we are not certain of its usefulness. Nevertheless, at least one money management organization has created duration betas.[22] These duration betas can be quite different from the betas for the securities. Exhibit 4–28 provides a list of the expected rates of return, durations, betas, and duration betas (the duration of the stock divided by the duration of the market). The

[21]See, for instance, R. Lanstein and W. F. Sharpe, "Duration and Security Risk," *Journal of Finance and Quantitative Analysis,* 13 (November 1978), 653–68; M. Livingston, "Duration and Risk Assessment for Bonds and Common Stocks: A Note," *Journal of Finance,* 33 (March 1978), 293–95; and John S. Bildersee and G. S. Roberts, "Beta Instability When Interest Rate Levels Change," *Journal of Financial and Quantitative Analysis,* 16 (September 1981), 379–80.

[22]Drexel, Burnham, Lambert, Inc., has published duration betas.

Ex

Analysts' Estima

	EXPECTED RETURN
McDonald's	12.7%
Times Mirror	12.9
Digital	11.6
Baxter Travernol	11.7
Northwest Bankcorp	13.4
Western Bankcorp	15.8
Burroughs	10.9
Manufacturers Hanover Bank	14.6
Pfizer	11.7
Jefferson Pilot	11.7
Middle South Utilities	15.3
Kimberly Clark	14.2
Eastman Kodak	11.4
Gulf Oil	16.1
Revlon	11.1
Mobil	15.2
American Home Prods.	11.3
International Harvester	17.7
IBM	11.9

Source: Adapted in part from Tony Estep, N
Common Stocks," *Journal of Portfolio Manag*

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Still, beta (or relative vola
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Item 14, page 37

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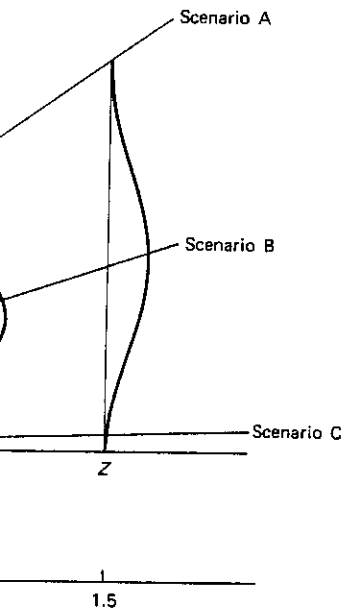
he CAPM



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shed duration betas.

Exhibit 4–28

Analysts' Estimates of Risk and Return

	EXPECTED RETURN	BETA	DURATION	DURATION BETA
McDonald's	12.7%	1.53	35.7	1.31
Times Mirror	12.9	1.33	24.3	0.86
Digital	11.6	1.27	42.3	1.51
Baxter Travernol	11.7	1.19	41.3	1.51
Northwest Bankcorp	13.4	1.17	23.9	0.88
Western Bankcorp	15.8	1.09	16.4	0.60
Burroughs	10.9	1.09	43.8	1.61
Manufacturers Hanover Bank	14.6	1.07	17.4	0.64
Pfizer	11.7	1.07	30.4	1.12
Jefferson Pilot	11.7	1.03	31.4	1.15
Middle South Utilities	15.3	1.03	14.0	0.51
Kimberly Clark	14.2	0.98	19.0	0.69
Eastman Kodak	11.4	0.98	33.6	1.23
Gulf Oil	16.1	0.97	14.4	0.53
Revlon	11.1	0.97	36.4	1.35
Mobil	15.2	0.96	16.3	0.60
American Home Prods.	11.3	0.96	33.2	1.22
International Harvester	17.7	0.96	13.5	0.50
IBM	11.9	0.95	28.7	1.06

Source: Adapted in part from Tony Estep, N. Hanson, and C. Johnson, "Sources of Value and Risk in Common Stocks," *Journal of Portfolio Management,* Summer 1983, p. 8.

expected rates of return are estimates made by the analysts at one money management organization; the durations were also developed by the analysts. The information in the exhibit is meant only to provide an example of how beta, the risk of systematic change, and duration, the impact of changes in interest rates, can lead to quite different ideas about the risk an investor may be taking with any security.

Still, beta (or relative volatility) does represent a very important kind of risk that should be important to investors: over time, returns do and will vary from our forecasts. Some firms and the returns from their securities are profoundly influenced by socioeconomic and political events. Other firms' returns have been (and perhaps will continue to be) dominated by microeconomic, firm-specific factors: superior management, market power, patent protection, or process innovation. Nonetheless, no firm and thus no security can escape the direct or indirect effects

Item 14, page 38

of events in the larger world. It is the desire to find a way to measure this macroeconomic sensitivity that spurs the search for a better beta. Despite the instability of historical betas, the concept of beta is not easily dismissed.

III. FUNDAMENTAL AND CREATIVE BETA PREDICTION

Many analysts believe that we are simply putting too much emphasis on history. Beta is likely to appear nonstationary because a firm's risk conditions change. The problem with instability is that we do not know whether risk is changing or whether our statistical techniques are at fault. History, as usual, presents problems and the future remains unknown.

Other methods of estimating beta have been devised. Beaver, Kettler, and Scholes (1970) attempted to understand the underlying determinants of beta. If we knew what determined beta, we could then use the same factors to estimate it. Beaver, Kettler, and Scholes used ratios from the firms' financial statements and then regressed these ratios against betas derived using the market model. This method, called *multivariate analysis,* is similar to the market model, but the regression includes a larger number of variables in the formula.

Exhibit 4–29 shows the coefficients of the regressions that Beaver, Kettler, and Scholes formed. Their regressions were more stable than those derived using simple historical returns and showed promise for better beta estimates. Remember, however, that these data were still cal-

Exhibit 4–29

Contemporaneous Association of Beta with Accounting Measures of Risk (Correlation Coefficients)

	INDIVIDUAL STOCKS		PORTFOLIOS (5 STOCKS)	
	1947–56	1957–66	1947–56	1957–66
Payout	−.49	−.29	−.79	−.50
Growth	.27	.01	.56	.02
Leverage	.23	.22	.41	.48
Liquidity ratio	−.13	.05	−.35	.04
Size of firm	−.06	−.16	−.09	−.30
EPS variability	.66	.45	.90	.82
Total returns	.44	.23	.68	.46

Source: W. Beaver, D. Kettler, and M. Scholes, "The Association between Market Determined and Accounting Determined Risk Measures," *Accounting Review,* 45 (October 1970), 669.

culated from historical data—but addition to historical returns.

Other researchers have dev of beta is called *fundamental* be specific variables that we believe a security's risk. Rosenberg and ultimately produced Rosenberg' six categories to develop beta es market variability category, fact sion (such things as historical be the residual errors) were ranked study. Such factors as price-ear ranked in importance as numbe though called fundamental, the f derived from the market model

By the way, Rosenberg anc systematic (microeconomic) risk source of a substantial portion of thermore, the error from the regr suspect that unsystematic risk able.

Corporate financial experts erage (the amount of debt finan leverage (the relationship of fix factors that affect the risk of a should also be determinants of

Hamada (1972) described th have on the beta of a stock; McKibben (1973), Logue and Me (1970), Breen and Lerner (1973), (1980), and Fuller and Kerr (198 the impact of the effect of lever

[23]See, for example, D. J. Thompso *Journal of Business,* 46 (1973), 173–87, earnings multiples, and asset growth. A fundamental determinants of beta: N. Go counting Numbers"; William Beaver an Determined and Accounting-Determine dence," *Journal of Financial and Quant* Rosenberg and W. McKibben, "The Pre Stock," *Journal of Financial and Quant*

[24]Ned C. Hill and B. K. Stone, i and Financial Leverage: A Risk-Compos Risk," *Journal of Financial and Quantit* marize the research in the area of dete beta, in addition to examining the imp

Item 14, page 39

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CKS	PORTFOLIOS (5 STOCKS)	
-66	1947–56	1957–66
29	−.79	−.50
01	.56	.02
22	.41	.48
05	−.35	.04
16	−.09	−.30
45	.90	.82
23	.68	.46

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ew, 45 (October 1970), 669.

culated from historical data—but historical financial ratios were used in addition to historical returns.

Other researchers have developed fundamental betas.[23] This type of beta is called *fundamental* because it is based on many of the firm-specific variables that we believe—intuitively or theoretically—can affect a security's risk. Rosenberg and Marathe (1975), in a major study which ultimately produced Rosenberg's fundamental beta, used 54 factors in six categories to develop beta estimates. Eleven of the 14 factors in the market variability category, factors derived from a market model regression (such things as historical beta, beta squared, and beta multiplied by the residual errors) were ranked as the 11 most important factors in this study. Such factors as price-earnings ratio and return on equity were ranked in importance as number 40 and number 36, respectively. Although called fundamental, the factors of primary importance were those derived from the market model using historical returns.

By the way, Rosenberg and Marathe also attempted to predict unsystematic (microeconomic) risk. As we have seen, this risk can be a source of a substantial portion of the total risk for individual assets. Furthermore, the error from the regressions is usually so large that we might suspect that unsystematic risk could instead be systematic or predictable.

Corporate financial experts have long believed that financial leverage (the amount of debt financing a company's assets) and operating leverage (the relationship of fixed and variable costs) are fundamental factors that affect the risk of a company. Thus, they conclude that they should also be determinants of the risk of a stock.

Hamada (1972) described the impact that changes in leverage should have on the beta of a stock; the results of tests by Rosenberg and McKibben (1973), Logue and Merville (1972), Beaver, Kettler, and Scholes (1970), Breen and Lerner (1973), Melicher and Rush (1974), Hill and Stone (1980), and Fuller and Kerr (1981) provide conflicting answers regarding the impact of the effect of leverage on beta.[24]

[23]See, for example, D. J. Thompson, "Sources of Systematic Risk in Common Stock," *Journal of Business*, 46 (1973), 173–87, who used covariant forms of dividends, earnings, earnings multiples, and asset growth. Among others, the following have also looked at the fundamental determinants of beta: N. Gonedes, "Evidence on the Information Content of Accounting Numbers"; William Beaver and J. Manegold, "The Association between Market-Determined and Accounting-Determined Measures of Systematic Risk: Some Further Evidence," *Journal of Financial and Quantitative Analysis*, 10 (June 1975), 231–84; and Barr Rosenberg and W. McKibben, "The Prediction of Systematic and Specific Risk in Common Stock," *Journal of Financial and Quantitative Analysis*, 8 (March 1973), 317–34.

[24]Ned C. Hill and B. K. Stone, in "Accounting Betas, Systematic Operating Risk, and Financial Leverage: A Risk-Composition Approach to the Determinants of Systematic Risk," *Journal of Financial and Quantitative Analysis*, 15 (September 1980), 595–637, summarize the research in the area of determining the fundamental, corporate factors behind beta, in addition to examining the impact of operating and financial leverage.

Item 14, page 40

Creative practitioners are developing new approaches to estimating beta. For instance, researchers at Drexel, Burnham, Lambert (and earlier at Bache and Co. with American General Life Insurance Co.) have developed what they call a *market-cycle beta.* They contend that historical betas are better measured if strong trends in the stock market are taken into account. These betas are calculated by using history and are plotted over time. Exhibit 4-30 shows two of their beta series over time. The bar indicates the standard error of the beta; the dot in the middle is the estimated beta. The market cycles are indicated by the dates opposite each beta estimate. The usefulness of these betas remains to be seen.

1. CAN ANALYSTS ADD VALUE?

Fundamental betas are still being derived from *historical* measures of return and/or firms' risk characteristics and return changes relative to the market. In analyzing historical returns or considering the firm's future risk characteristics, can the analyst add value to the beta estimate by forecasting some of the conditions that will affect future fundamental beta measurement? We don't know for sure. Let us examine the question further by looking at the results of a study that uses analysts' estimates to mechanically adjust betas.

Using data from Lynch, Jones and Ryan, a firm that tracks analyst forecasts, Carvell and Strebel (1984) developed a beta adjusted by the uncertainty of analysts' forecasts. Since analysts' forecasts of beta are not available, Carvell and Strebel developed a beta from earnings forecasts. They contend that if the standard error of the beta from a historical regression analysis and/or the analysts' forecast variance is small, estimation risk is not important. This, they say, is the case with the stocks of large, well-researched firms. In fact, they suggest that estimation error is inversely related to market value size—and the number of analysts following the firm. Carvell and Strebel placed each stock into a portfolio according to the number of analysts that followed it. They believed that if they could eliminate unlikely results, such as a size effect, that their adjusted beta would be superior. As shown in Exhibit 4-31, they found that their adjusted betas outperformed the simple, historical beta, at least for the period they tested, 1976 to 1981. The excess return for lightly followed stocks of 0.0023 that was derived when the historical beta was used dropped to 0.0004 using their analyst-adjusted beta—the abnormal returns virtually disappeared. This study is one of the few that has used analyst forecasts to adapt historical beta.

In addition to this mechanical adaptation of beta for analysts' forecasts, practitioners have been using beta and adapting it for some time. Fouse (1976), a practitioner interested in adapting the elegant but cantankerous CAPM for use as a portfolio management tool, attempted to

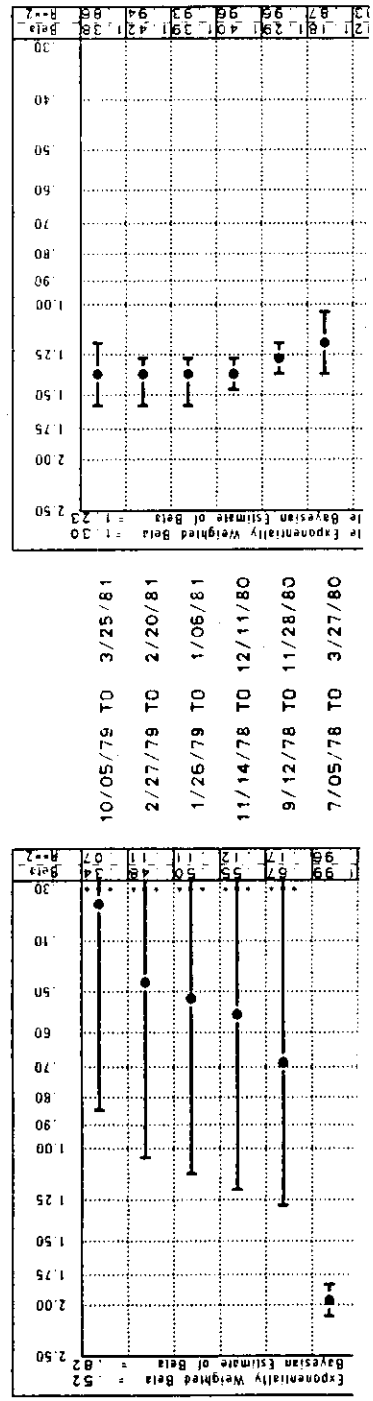

Exhibit 4-30
Market-Cycle Betas

Item 14, page 41

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add value to the beta estimate
t will affect future fundamental
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veloped a beta adjusted by the
analysts' forecasts of beta are
ped a beta from earnings fore-
error of the beta from a histor-
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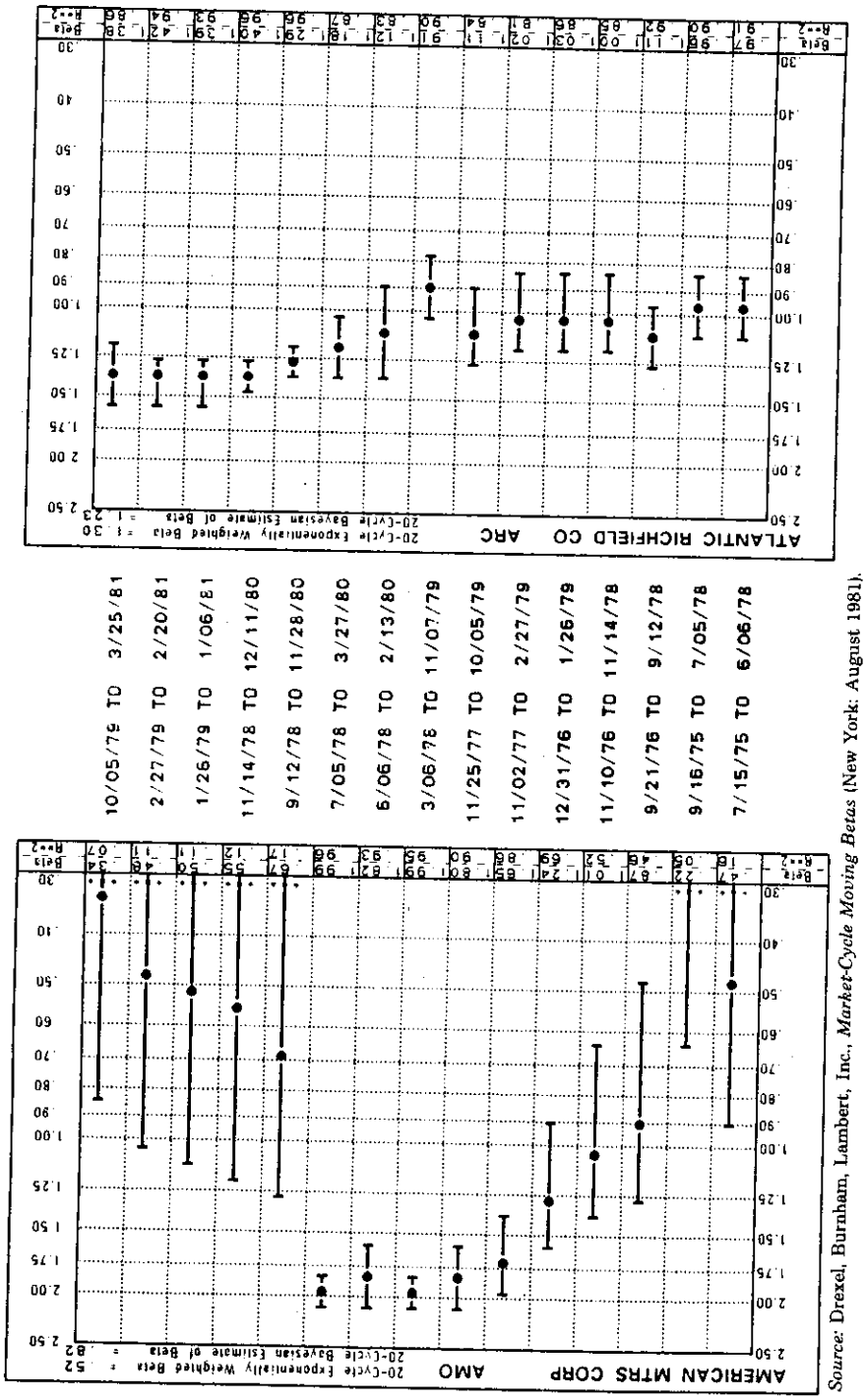
Exhibit 4–30

Market-Cycle Betas



Source: Drexel, Burnham, Lambert, Inc., *Market-Cycle Moving Betas* (New York: August 1981).

Item 14, page 42

Exhibit 4–31

Portfolio Risks and Excess Returns Betas Adjusted for Analyst Forecasts

PORT-FOLIO	AVERAGE NO. OF ANALYSTS	COEFFI-CIENT OF VARIATION	HISTORICAL BETA	NEW BETA	RETURN	EXCESS RETURNS–HISTORICAL BETA	EXCESS RETURNS–NEW BETA
1	22	.050*	1.038*	1.278*	.009*	−.0032*	−.0039*
2	11	.086*	1.135*	1.685*	.013*	.0005	−.0019
3	4	.101*	1.209*	1.822*	.017*	.0023*	.0004

*Significant at 95% percent level or above.

Source: S. Carvell and P. Strebel, "A New Beta Incorporating Analysts' Forecasts," *The Journal of Portfolio Management*, Fall 1984, pp. 83–84.

join modern capital market theory
theory. He felt that academics, in t
ignored price formation in order t
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2. CAN BETAS BE USED FOR PRACTI

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5. A return on equity
6. A projection of growth
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The first six factors are turned
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[25]The dividend-discount model is

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Item 14, page 43

join modern capital market theory with old, fundamental, classical value theory. He felt that academics, in their attempts to implement the CAPM, ignored price formation in order to concentrate on the behavior and construction of portfolios. Thus, academics could test their models only with ex post data, data that could never convince professional investors or even other academics. Fouse argued that because beta is an expectational estimate based on (1) the financial risk and business risk of a firm and (2) the degree to which a firm's business covaries with the total economy, beta should be predictable. Fouse expected that because analysts had traditionally been concerned with these problems, their estimates should add value.

Analyst-estimated or analyst-adjusted betas are increasingly being used by practitioners and will undoubtedly be tested just as rigorously as other beta-prediction techniques when institutions have been predicting long enough to yield adequate data for a test.

2. CAN BETAS BE USED FOR PRACTICAL PURPOSES?

Because we have discussed major problems in estimating beta, we must certainly ask whether we can still use beta in practice. Perhaps the best way to answer this question is to describe the use that one firm has made of betas. In our example firm, analysts make projections for

1. Five years of expected dividends
2. Five years of expected earnings
3. Five years of expected growth
4. A payout ratio
5. A return on equity
6. A projection of growth after the initial five years
7. Beta, usually using a market model estimate adjusted by the analyst

The first six factors are turned into a forecast of the expected rate of return for the stock in question. Using a variation of the *dividend-discount model*,[25] they find the expected return. For example, in Exhibit

[25]The dividend-discount model is

$$P_O = \sum_{n=1}^{\infty} \frac{D_n}{(1+R)^n}$$

where

P = market price at time 0
D = dividends
n = the year from year 1 to infinity (∞)
R = the expected rate of return
Σ = the sum

Item 14, page 44

Exhibit 4–32

Analysts' Forecasts Used to Estimate Returns

Values at Maturity: Growth Rate: 10.3% | Payout Ratio: 45.0% | Implicit ROE: 18.7%

	STOCK RATING	PRICE	DBL BETA		EPS	CHG. IN %	DIV.	CHG. IN %	PAYT. RATIO	GROWTH & TRANS. PERIOD GROWTH RATE	ILMPL. ROE	ADD. YRS.	TRANS. YRS.	EXP. RTN. BETA	EXP. RE-TURN	PER-IOD CON-TRIB.
American Motors Corp. (AMO)	S2	3.50	0.82	1980	−6.00		0.00		20.0%	5.0%	6.3%	4	5	1.17	17.0%	18.5%
				1981	−3.00	—	0.00	—								14.8%
				1982	−1.00	—	0.00	—								66.7%
				1983	0.75	—	0.15	—								
				1984	1.50	100.0	0.30	100.0								
				1985	1.57	5.0	0.31	5.0								
				Eps Growth 1980 to 1985				98.1%						ROR1 = 3.5%		
				Div Growth 1980 to 1985				31.0%								
Ford Motor Co. Del (F)	N2	19.88	0.40	1980	−12.83		1.20		27.9%	5.0%	6.9%	3	5	0.67	20.3%	38.4%
				1981	−7.00	—	1.20	0.0								18.2%
				1982	1.60	—	1.20	0.0								43.4%
				1983	13.00	712.5	2.00	66.7								
				1984	13.00	0.0	3.00	50.0								
				1985	10.76	−17.2	3.00	0.0								
				Eps Growth 1980 to 1985				214.4%						ROR1 = 29.8%		
				Div Growth 1980 to 1985				25.1%								
General Motors Corp. (GM)	B1	45.75	0.41	1980	−2.65		2.95		48.6%	5.0%	9.7%	3	5	0.59	19.4%	49.4%
				1981	4.75	—	3.05	3.4								17.8%
				1982	11.25	136.8	5.50	80.3								32.8%
				1983	16.00	42.2	7.50	36.4								
				1984	14.70	−8.1	7.50	0.0								
				1985	15.43	5.0	7.50	0.0								
				Eps Growth 1980 to 1985				128.6%						ROR1 = 22.5%		
				Div Growth 1980 to 1985				24.5%								

Source: Drexel, Burnham, Lambert, Inc., *Analysts' Long Term Earnings and Dividend Forecasts* (New York: September 1981).

4-32 the Drexel, Burnham, Lamb
American Motors is 17 percent.
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each stock and portray them as
dots, one for each stock, a line
plotted. This line, like the dashe
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Expected Return and I

[26]Recall that there have been a n
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the excess returns. Care must be take
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tential for profit—that is, whether the

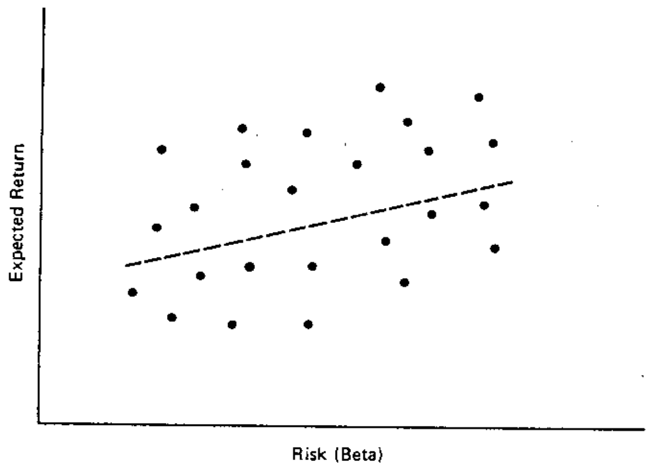
Item 14, page 45

4–32 the Drexel, Burnham, Lambert, Inc., analysts' estimated return for American Motors is 17 percent. Some money investment management organizations then take this return forecast and an estimate of beta for each stock and portray them as shown in Exhibit 4–33. To this sea of dots, one for each stock, a line of best fit (a least-squares estimate) is plotted. This line, like the dashed line in Exhibit 4–33, is the consensus or the expected marketwide risk-return trade-off forecast by these analysts. Theoretically, all stocks should plot on the line if the market were perfectly efficient. Obviously, here they do not.

The distance that any dot lies from the trade-off (or market-price-of-risk) line is called its *superior, risk-adjusted return,* or *alpha.* The investment firms using this approach believe that the alpha indicates the stock's relative attractiveness.[26] Those stocks with positive alphas (plotting above the line) are expected to outperform the market—that is, to provide a superior return for their risk. The stocks plotting below the line are stocks with less attractive prospects than average. These stocks should be reconsidered if they are already held, but they should certainly not be purchased.

Exhibit 4–33

Expected Return and Risk for a Universe of Stocks



[26]Recall that there have been a number of studies that have found that the alpha, the excess return, could have come from the misestimation of beta. Time-varying models and betas adapted for analysts' estimates seem to have significantly reduced the size of the excess returns. Care must be taken to separate real excess returns from estimation errors. The analyst faced with an excess return should determine whether it is a real potential for profit—that is, whether the return is more than enough to offset the risk.

Item 14, page 46

These alphas and betas depend on the analyst's skill at predicting the future. The question of whether alphas provide better information than total returns for selecting stocks can be answered, We don't know. This technique remains to be tested, but many practicing investment managers believe that alphas derived in this fashion are useful.

This example of one use of beta is one of the curious uses of efficient-market theory. A theoretical concept based on market efficiency is used to identify market inefficiencies—undervalued and overvalued securities. Despite the paradox, the process may be fruitful.

IV. CONCLUSION

We know

> *That simple changes in the parameters of a time-series beta can result in a significant change in the resulting beta. (We do not know which are the best ways to make estimates. Consistency is a stopgap policy.)*
>
> *That time-series betas are not good predictors of single-asset future betas.*
>
> *That beta is a summary measure and may prove to be too austere. Much that underlies the movements of returns in the marketplace may be better described by a richer model than the CAPM. Unsystematic risk may not be irrelevant—even in the portfolio context.*

Despite these disheartening results, it is still too soon to reject beta. Academics and practitioners are using beta and are developing better tests of the predictive value of beta. More important, they are working to unravel the problems of estimating beta and are using beta to make better stock selections, examine performance, and create portfolios. We have learned that we cannot simply extrapolate the future from the past. But analysts exercising careful judgment can interpret historical data and add judgment and insight in an effort to predict the future.

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Item 14, page 51

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

15. In reference to Dr. Weaver's Schedule 38, provide individual-company cost of equity calculations for each of the growth rates utilized.

Answer:

The cost of equity was calculated in Schedule 38 using the growth rate averages that are shown in Schedules 33, 34, and 35. The purpose of using average of the measures from the five company groups rather than using data from individual companies is to create a composite value that is best representative of KU and of LG&E. For this reason, I did not perform individual-company cost of equity calculations. It would have been incorrect to have done so.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

16. Provide a copy of the source document for each of the four projections for each company shown on Schedule 35.

Answer:

The requested source documents are attached.

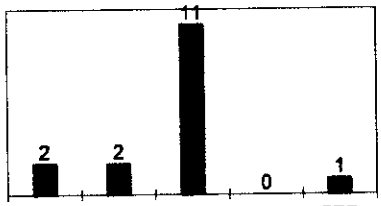
Zacks Company Report as of 10/31/03 — Next EPS Report Date: 01/15/04

				Industry: *UTIL-ELEC PWR*			Type: *Large*	*Blend*	
Rec Price	**P/E**	**Mkt Cap**	**Div Rate**	**Yield**	**Sales (12Mo)**	**Sls Gr**	**EPS Gr**	**Div Gr**	**Zacks Rank**
$36.31	13.3	$6445 MM	$1.84	5.1%	$6725 MM	5%	5%	0%	Hold

Cinergy Corp. is one of the nation's leading diversified energy companies. Cinergy owns or operates electrical and heat plant generators that are either operational or under development domestically and internationally. It also has electric and gas transmission lines in the U.S. and abroad. Cinergy Solutions focuses on cogeneration, energy services and utility outsourcing for large industrials, municipalities, universities and other large energy consumers. Its customers include BP Amoco, Kodak and General Motors. (Company Press Release)

Ave Broker Rec	**#Up**	**#Dn**
HOLD	0	2

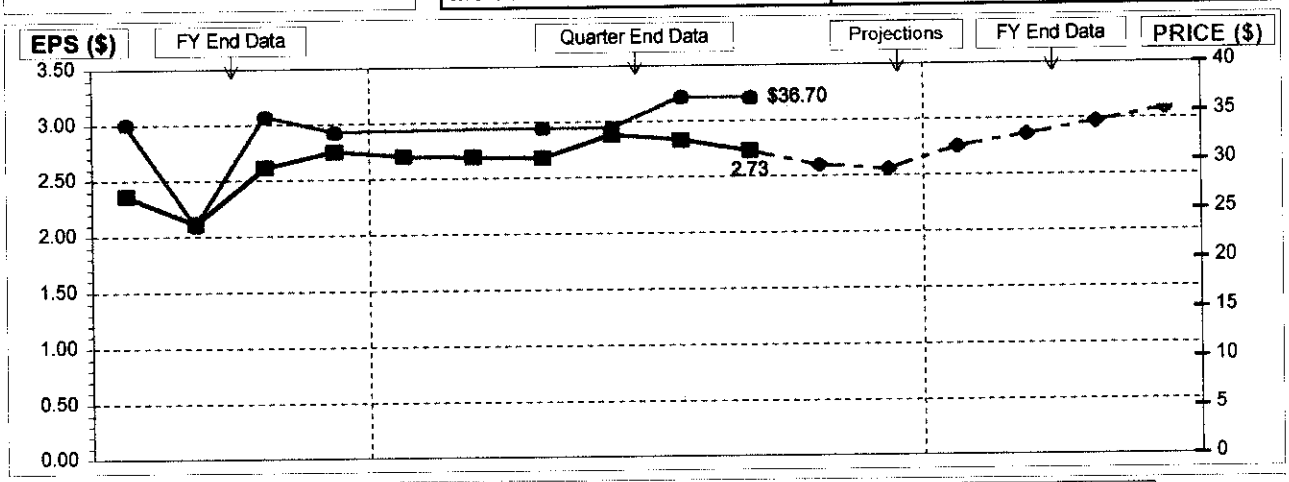
Broker Recommendations

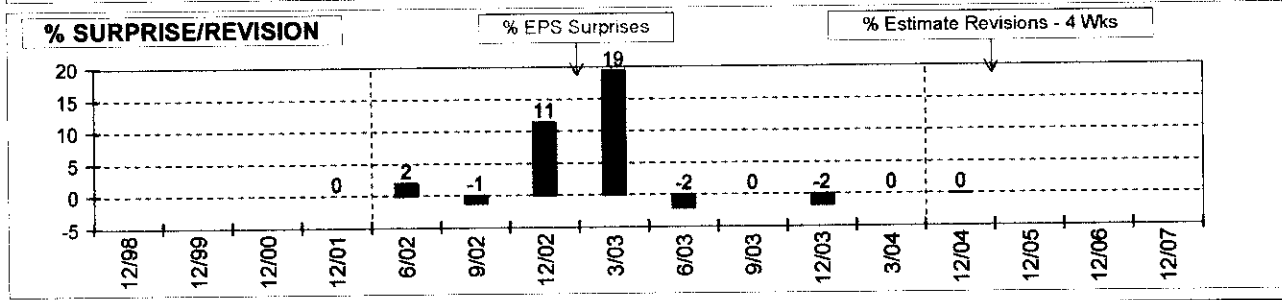


Price/Volume Data	
52-Wk High	$38.59
Low	$29.36
PriceChg-YTD	8%
-YTD(Rel)	-10%
Avg Dly Vol	710 000s
Exp Return/Risk	
Impl Ret=Yld+Gr	9%
Beta	-0.04
Shareholder Data	
Shares Out	177.5 MM
Institutions	67.68%
Insiders	1.98%

EPS,P/E and Growth Rates			Yr/Yr
FY	**EPS**	**P/E**	**EPS Gr**
12/02 Act	2.68	12.6	-3%
12/03 Est	2.61	13.9	-3%
12/04 Est	2.76	13.2	6%
Last 5Yr			5%
Next 3-5Yr (Est)			4%

Other Key Measures	**Current**	**5-Year Avg**
P/E (12 Mo)	13.3	12.4
Rel P/E	56%	
Net Margin	7%	5.4%
ROE	13.2%	14.3%
LT Debt/Cap	53%	53%





UTIL-ELEC PWR	*Industry Comparables*						Impl				
Industry # 193	Pr Chg YTD	P/E (12Mo)	EPS Gr 5Yr Est	Price/ Book	Price/ Sales	Price/ CF	Ret/ P/E	Div Yield	Net Margin	ROE	Debt/ Cap
CINERGY CORP	8%	13.3	4%	1.8	1.0	7.0	0.67	5.1%	6.9%	13%	53%
INDUSTRY AVG*		13.6	5%	1.4		6.0	0.63	3.8%	6.2%	11%	
S&P 500	19%	23.9	7%	5.2				1.6%		17%	
* 103	Companies in industry group.										

Latest Splits: 12/03/92 1.500 — Ex-Div. Date: 10/16/03

(1.6 * 1.07) + 7

Item 16, page 2

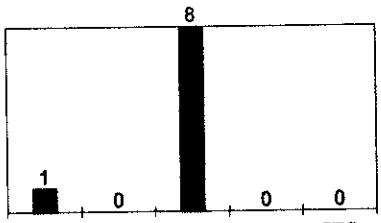
Zacks Company Report as of 10/31/03 — Next EPS Report Date: 11/07/03

				Industry: *UTIL-ELEC PWR*			Type: *Large*	*Value*	
Rec Price	**P/E**	**Mkt Cap**	**Div Rate**	**Yield**	**Sales (12Mo)**	**Sls Gr**	**EPS Gr**	**Div Gr**	**Zacks Rank**
$36.88	9.9	$6196 MM	$2.06	5.6%	$6063 MM	14%	4%	0%	Sell

DTE Energy is a Detroit-based diversified energy company involved in the development and management of energy-related businesses and services nationwide. Its largest operating units are Detroit Edison, an electric utility serving 2.1 million customers in Southeastern Michigan, and MichCon, a natural gas utility serving 1.2 million customers in Michigan. Detroit Edison is the Company's principal operating subsidiary. Affiliates of the Company are engaged in non-regulated businesses, including energy-related services and products.

Ave Broker Rec	**#Up**	**#Dn**
HOLD	0	0

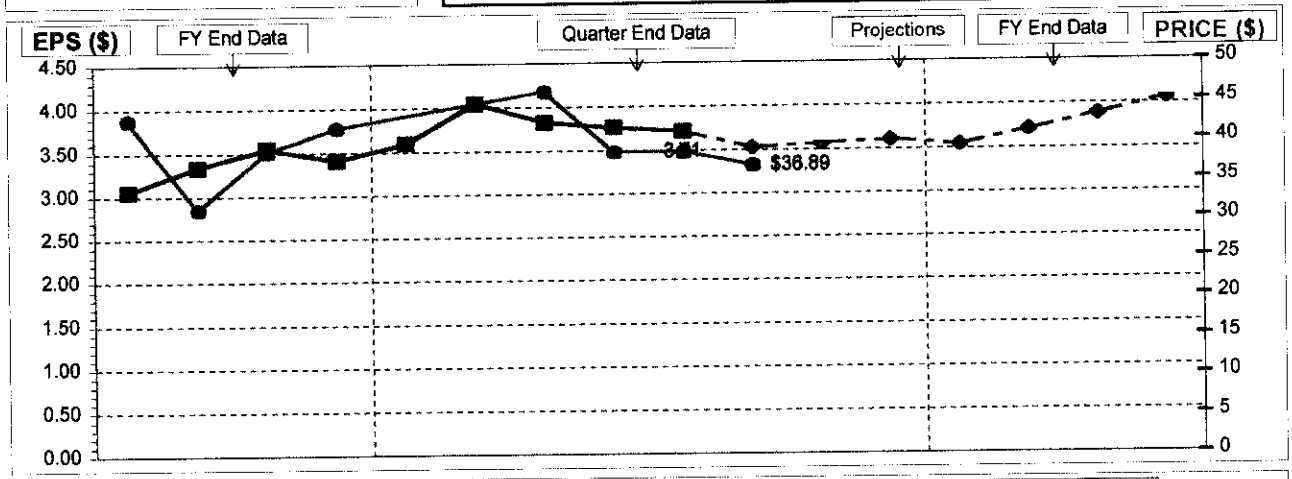
Broker Recommendations

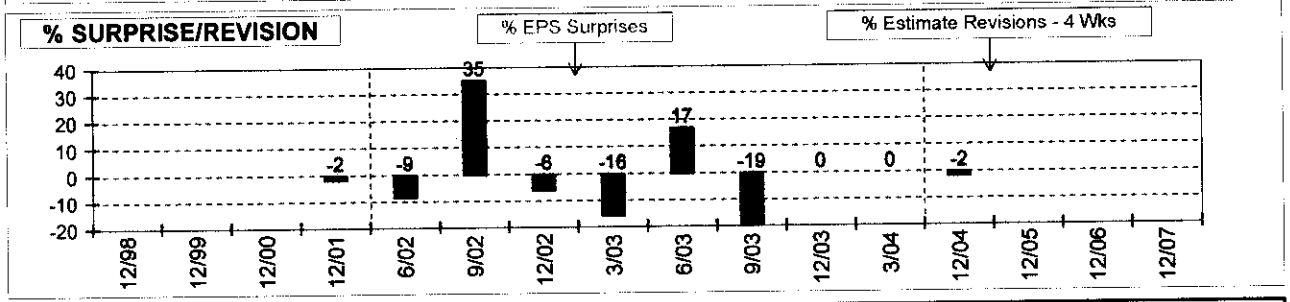


Price/Volume Data	
52-Wk High	$49.28
Low	$34.54
PriceChg-YTD	-21%
-YTD(Rel)	-33%
Avg Dly Vol	768 000s
Exp Return/Risk	
Impl Ret=Yld+Gr	10%
Beta	-0.07
Shareholder Data	
Shares Out	168.0 MM
Institutions	52.69%
Insiders	0.30%

EPS,P/E and Growth Rates			Yr/Yr
FY	**EPS**	**P/E**	**EPS Gr**
12/02 Act	3.83	12.1	13%
12/03 Est	3.15	11.7	-18%
12/04 Est	3.54	10.4	13%
Last 5Yr			4%
Next 3-5Yr (Est)			5%

Other Key Measures	**Current**	**5-Year Avg**
P/E (12 Mo)	9.9	11.7
Rel P/E	42%	
Net Margin	8%	8.2%
ROE	12.8%	12.3%
LT Debt/Cap	61%	57%





UTIL-ELEC PWR	*Industry Comparables*						Impl				Debt/
Industry # 193	Pr Chg YTD	P/E (12Mo)	EPS Gr 5Yr Est	Price/ Book	Price/ Sales	Price/ CF	Ret/ P/E	Div Yield	Net Margin	ROE	Cap
DTE ENERGY CO	-21%	9.9	5%	1.3	1.0	4.4	1.03	5.6%	8.2%	13%	61%
INDUSTRY AVG*		13.6	5%	1.4		6.0	0.63	3.8%	6.2%	11%	
S&P 500	19%	23.9	7%	5.2				1.6%		17%	

* 103 Companies in industry group.

Latest Splits:

Ex-Div. Date: 09/18/03

Item 16, page 3

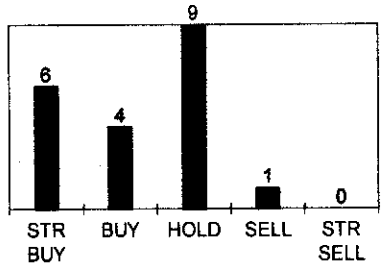
Zacks Company Report as of 10/31/03 — Next EPS Report Date: 01/16/04

				Industry: *UTIL-ELEC PWR*			Type: *Large Blend*		
Rec Price	**P/E**	**Mkt Cap**	**Div Rate**	**Yield**	**Sales (12Mo)**	**Sls Gr**	**EPS Gr**	**Div Gr**	**Zacks Rank**
$63.74	13.0	$11705 MM	$2.40	3.8%	$9635 MM	9%	6%	4%	Hold

FPL Group, Inc. is a public utility holding company. FPL Group's principal subsidiary, FPL, is engaged in the generation, transmission, distribution and sale of electric energy. FPL Group Capital, a wholly-owned subsidiary of FPL Group, holds the capital stock and provides funding for the operating subsidiaries other than FPL. In addition, FPL Group Capital formed a new subsidiary to sell wholesale fiber-optic network capacity.

Ave Broker Rec	**#Up**	**#Dn**
BUY	0	2

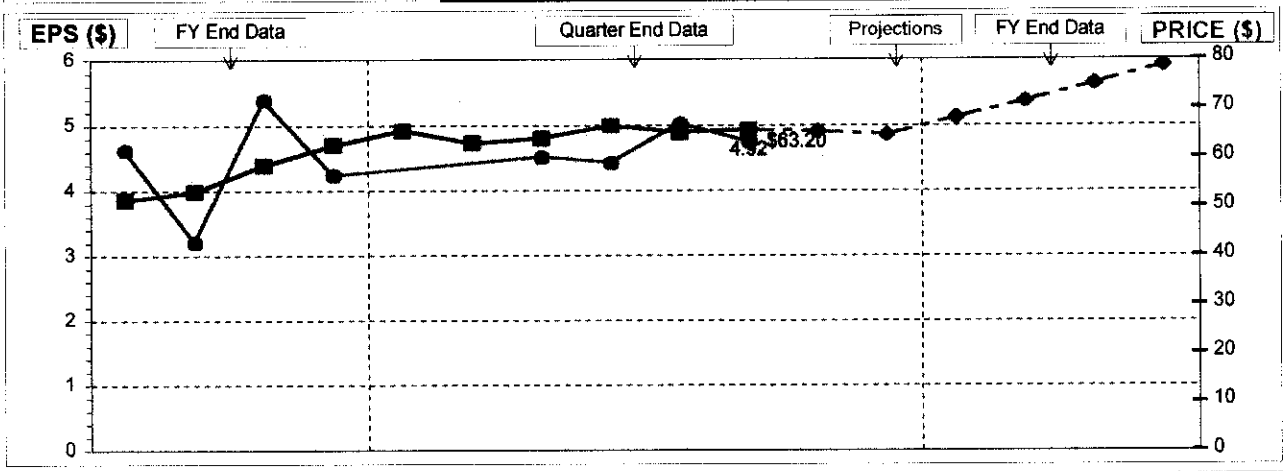
Broker Recommendations

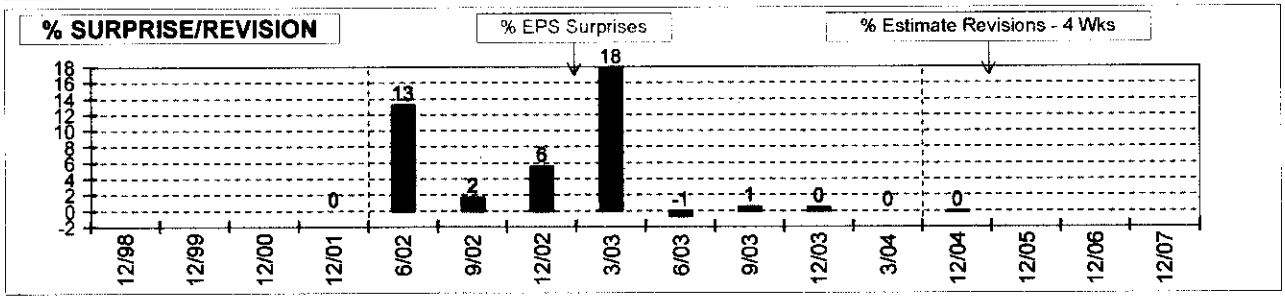


Price/Volume Data	
52-Wk High	$67.83
Low	$54.20
PriceChg-YTD	6%
-YTD(Rel)	-11%
Avg Dly Vol	893 000s
Exp Return/Risk	
Impl Ret=Yld+Gr	9%
Beta	0.12
Shareholder Data	
Shares Out	183.6 MM
Institutions	64.11%
Insiders	0.70%

EPS,P/E and Growth Rates			Yr/Yr
FY	**EPS**	**P/E**	**EPS Gr**
12/02 Act	4.80	12.5	2%
12/03 Est	4.89	13.0	2%
12/04 Est	5.11	12.5	5%
Last 5Yr			6%
Next 3-5Yr (Est)			5%

Other Key Measures		5-Year
	Current	**Avg**
P/E (12 Mo)	13.0	12.8
Rel P/E	54%	
Net Margin	9%	9.0%
ROE	13.4%	13.4%
LT Debt/Cap	49%	41%





UTIL-ELEC PWR	***Industry Comparables***										
	Pr Chg	**P/E**	**EPS Gr**	**Price/**	**Price/**	**Price/**	**Impl Ret/**	**Div**	**Net**		**Debt/**
Industry # 193	**YTD**	**(12Mo)**	**5Yr Est**	**Book**	**Sales**	**CF**	**P/E**	**Yield**	**Margin**	**ROE**	**Cap**
FPL GRP	6%	13.0	5%	1.8	1.2	6.7	0.67	3.8%	9.0%	13%	49%
INDUSTRY AVG*		13.6	5%	1.4		6.0	0.63	3.8%	6.2%	11%	
S&P 500	19%	23.9	7%	5.2	.			1.6%		17%	

* 103 Companies in industry group.

Latest Splits: 02/01/85 2.000 05/02/80 2.000 — Ex-Div. Date: 08/27/03

Item 16, page 4

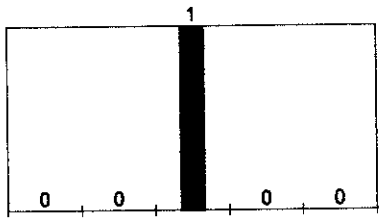
Zacks Company Report as of 10/31/03 — Next EPS Report Date: 02/05/04

				Industry: *UTIL-ELEC PWR*			Type: *Small*	*Blend*	
Rec Price	**P/E**	**Mkt Cap**	**Div Rate**	**Yield**	**Sales (12Mo)**	**Sls Gr**	**EPS Gr**	**Div Gr**	**Zacks Rank**
$31.59	19.6	$566 MM	$1.35	4.3%	$394 MM	9%	4%	1%	Hold

MGE Energy is a public utility holding company. Its principal subsidiary, MGE, generates and distributes electricity to more than 128,000 customers in Dane County, Wisconsin (250 square miles) and purchases, transports and distributes natural gas to nearly 123,000 customers in seven south-central and western Wisconsin counties (1,375 square miles). (Press Release)

Ave Broker Rec	**#Up**	**#Dn**
HOLD	0	0

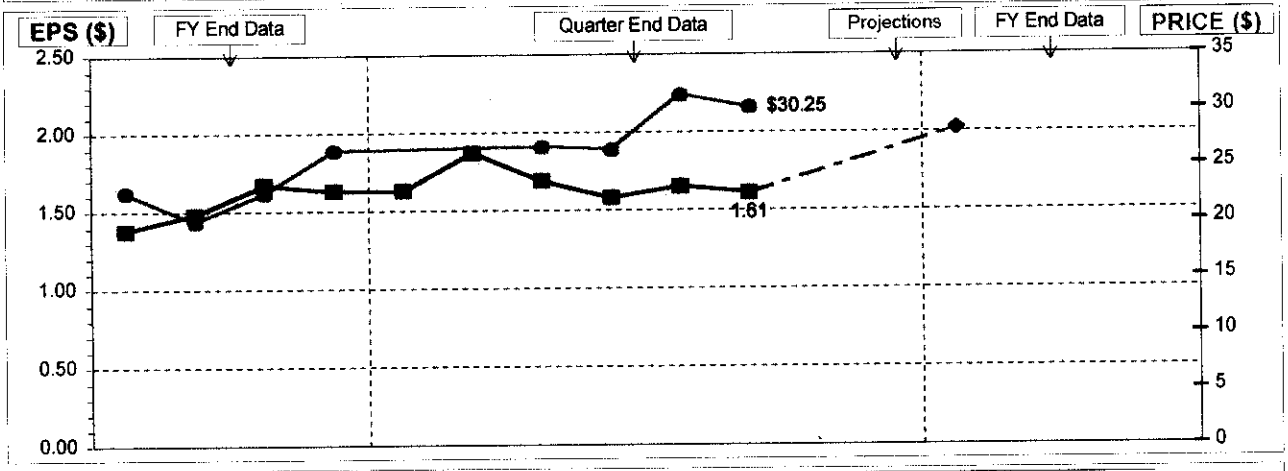
Broker Recommendations

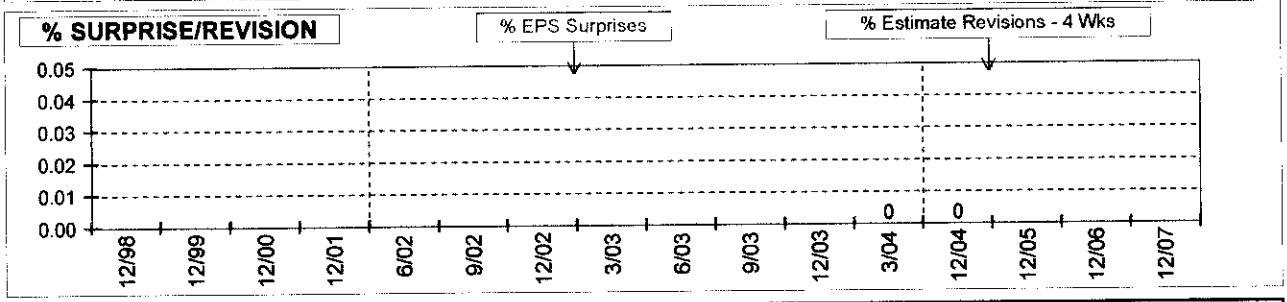


Price/Volume Data	
52-Wk High	$34.45
Low	$25.27
PriceChg-YTD	18%
-YTD(Rel)	-1%
Avg Dly Vol	18 000s
Exp Return/Risk	
Impl Ret=Yld+Gr	
Beta	0.08
Shareholder Data	
Shares Out	17.9 MM
Institutions	22.29%
Insiders	

EPS,P/E and Growth Rates			Yr/Yr
FY	**EPS**	**P/E**	**EPS Gr**
12/02 Act	1.69	15.8	4%
12/03 Est	1.92	16.5	14%
12/04 Est	2.02	15.6	5%
Last 5Yr			4%
Next 3-5Yr (Est)			

Other Key Measures	**Current**	**5-Year Avg**
P/E (12 Mo)	19.6	15.1
Rel P/E	82%	
Net Margin	7%	8.5%
ROE	12.2%	10.8%
LT Debt/Cap	44%	31%





UTIL-ELEC PWR	*Industry Comparables*						Impl					Debt/
Industry # 193	Pr Chg YTD	P/E (12Mo)	EPS Gr 5Yr Est	Price/ Book	Price/ Sales	Price/ CF	Ret/ P/E	Div Yield	Net Margin	ROE	Cap
MGE ENERGY INC	18%	19.6		2.3	1.4	9.4		4.3%	7.3%	12%	44%
INDUSTRY AVG*		13.6	5%	1.4		6.0	0.63	3.8%	6.2%	11%	
S&P 500	19%	23.9	7%	5.2				1.6%		17%	

* 103 Companies in industry group.

Latest Splits: 02/21/96 1.500 01/22/92 1.500 — Ex-Div. Date: 08/27/03

Item 16, page 5

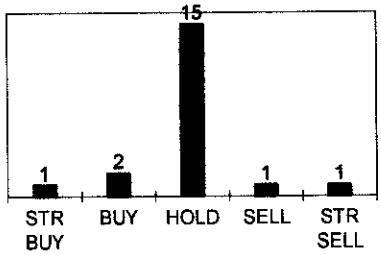
Zacks Company Report as of 10/31/03 — Next EPS Report Date: 01/26/04

				Industry: *UTIL-ELEC PWR*			Type: *Large Blend*		
Rec Price	**P/E**	**Mkt Cap**	**Div Rate**	**Yield**	**Sales (12Mo)**	**Sls Gr**	**EPS Gr**	**Div Gr**	**Zacks Rank**
$29.80	15.1	$21710 MM	$1.40	4.7%	$11206 MM	1%	1%	1%	Hold

Southern Energy acquires, develops, builds, owns and operates power production and delivery facilities and provides a broad range of energy-related services to utilities and industrial companies in selected countries around the world. Southern Energy businesses include independent power projects, integrated utilities, a distribution company, and energy trading and marketing businesses outside the southeastern United States.

Ave Broker Rec	**#Up**	**#Dn**
HOLD	0	0

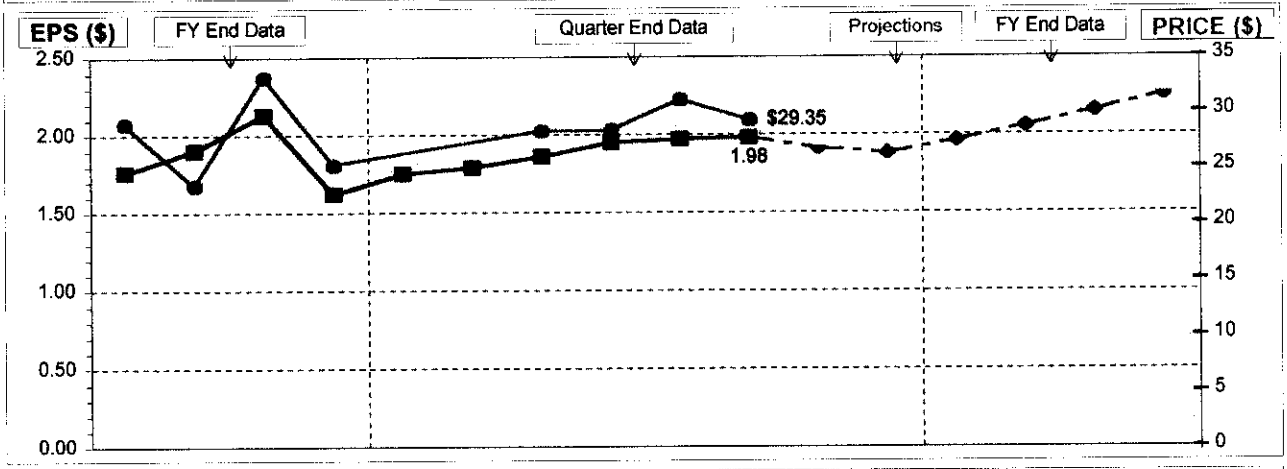
Broker Recommendations

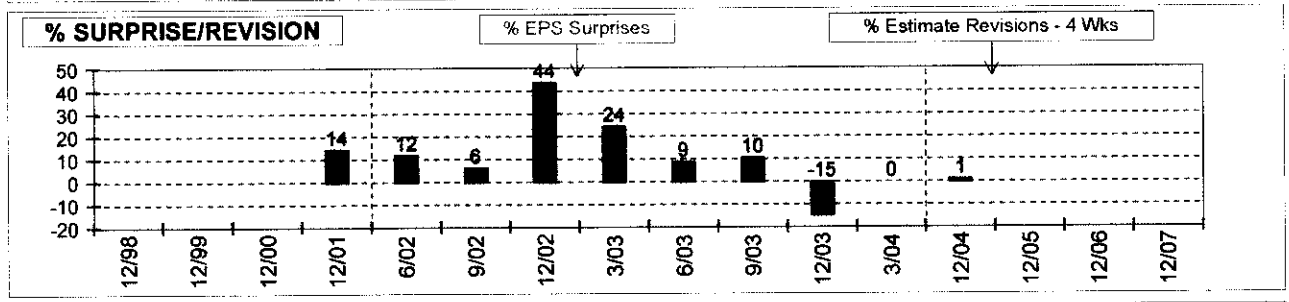


Price/Volume Data	
52-Wk High	$31.81
Low	$25.17
PriceChg-YTD	5%
-YTD(Rel)	-12%
Avg Dly Vol	1784 000s
Exp Return/Risk	
Impl Ret=Yld+Gr	9%
Beta	-0.26
Shareholder Data	
Shares Out	728.5 MM
Institutions	36.87%
Insiders	0.50%

EPS,P/E and Growth Rates			Yr/Yr
FY	**EPS**	**P/E**	**EPS Gr**
12/02 Act	1.86	15.3	15%
12/03 Est	1.90	15.7	2%
12/04 Est	1.96	15.2	3%
Last 5Yr			1%
Next 3-5Yr (Est)			5%

Other Key Measures	**Current**	**5-Year Avg**
P/E (12 Mo)	15.1	15.1
Rel P/E	63%	
Net Margin	14%	11.5%
ROE	16.0%	14.5%
LT Debt/Cap	57%	56%





UTIL-ELEC PWR	*Industry Comparables*											Impl
Industry # 193	Pr Chg YTD	P/E (12Mo)	EPS Gr 5Yr Est	Price/ Book	Price/ Sales	Price/ CF	Ret/ P/E	Div Yield	Net Margin	ROE	Debt/ Cap
SOUTHN COMPANY	5%	15.1	5%	2.3	1.9	8.5	0.63	4.7%	13.5%	16%	57%
INDUSTRY AVG*		13.6	5%	1.4		6.0	0.63	3.8%	6.2%	11%	
S&P 500	19%	23.9	7%	5.2				1.6%		17%	

* 103 Companies in industry group.

Latest Splits: 03/01/94 2.000 — Ex-Div. Date: 10/30/03

Item 16, page 6

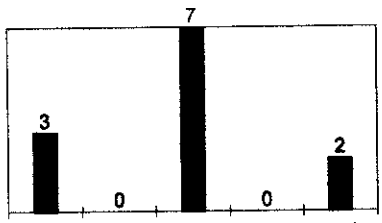
Zacks Company Report as of 10/31/03 — Next EPS Report Date: 01/23/04

				Industry: *UTIL-ELEC PWR*			Type: *Large*	*Value*	
Rec Price	**P/E**	**Mkt Cap**	**Div Rate**	**Yield**	**Sales (12Mo)**	**Sls Gr**	**EPS Gr**	**Div Gr**	**Zacks Rank**
$36.37	13.9	$6070 MM	$1.04	2.9%	$8860 MM	15%	3%	-16%	Hold

Baltimore Gas and Electric Company consists primarily of generating, purchasing, and selling electricity and purchasing, transporting, and selling natural gas.

Ave Broker Rec	**#Up**	**#Dn**
HOLD	0	0

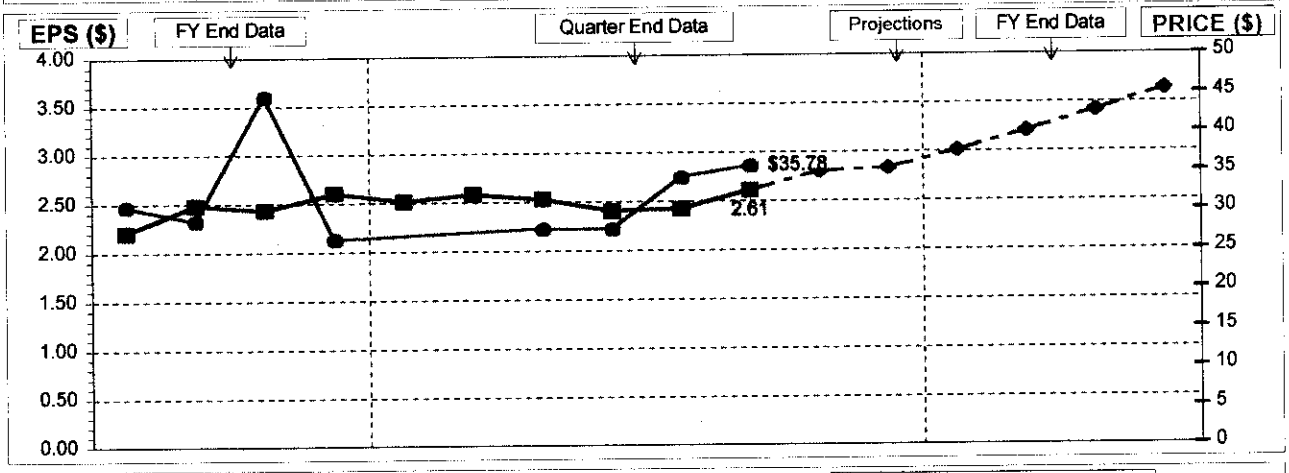
Broker Recommendations

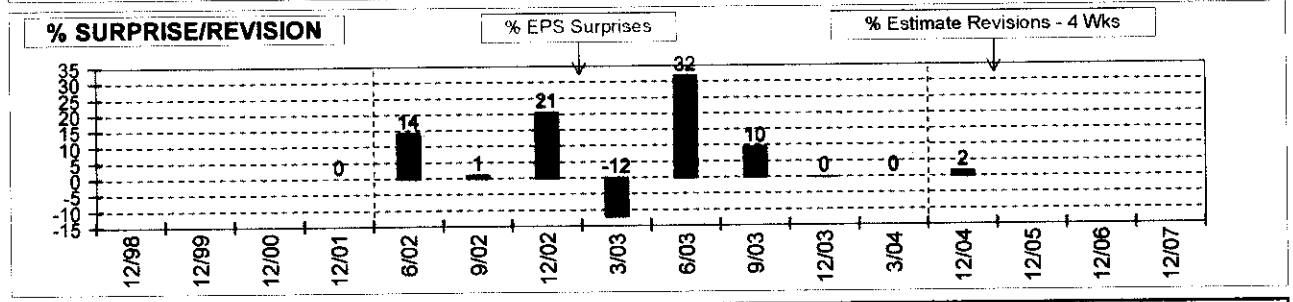


Price/Volume Data	
52-Wk High	$37.62
Low	$23.65
PriceChg-YTD	31%
-YTD(Rel)	9%
Avg Dly Vol	643 000s
Exp Return/Risk	
Impl Ret=Yld+Gr	9%
Beta	0.29
Shareholder Data	
Shares Out	166.9 MM
Institutions	64.65%
Insiders	1.00%

EPS,P/E and Growth Rates			Yr/Yr
FY	**EPS**	**P/E**	**EPS Gr**
12/02 Act	2.52	11.0	-3%
12/03 Est	2.77	13.1	10%
12/04 Est	3.01	12.1	9%
Last 5Yr			3%
Next 3-5Yr (Est)			7%

Other Key Measures	**Current**	**5-Year Avg**
P/E (12 Mo)	13.9	13.2
Rel P/E	58%	
Net Margin	3%	7.2%
ROE	11.5%	11.3%
LT Debt/Cap	56%	48%





UTIL-ELEC PWR	*Industry Comparables*						Impl				
Industry # 193	Pr Chg YTD	P/E (12Mo)	EPS Gr 5Yr Est	Price/ Book	Price/ Sales	Price/ CF	Ret/ P/E	Div Yield	Net Margin	ROE	Debt/ Cap
CONSTELLATN EGY	31%	13.9	7%	1.6	0.7	6.2	0.67	2.9%	2.5%	11%	56%
INDUSTRY AVG*		13.6	5%	1.4		6.0	0.63	3.8%	6.2%	11%	
S&P 500	19%	23.9	7%	5.2				1.6%		17%	

* 103 Companies in industry group.

Latest Splits: 05/18/92 1.500 08/30/85 2.000 — Ex-Div. Date: 09/08/03

Item 16, page 7

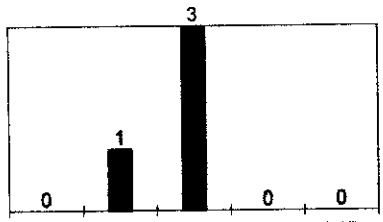
Zacks Company Report as of 10/31/03 — Next EPS Report Date: 02/05/04

				Industry: *UTIL-ELEC PWR*			Type: *Small*	*Value*	
Rec Price	**P/E**	**Mkt Cap**	**Div Rate**	**Yield**	**Sales (12Mo)**	**Sls Gr**	**EPS Gr**	**Div Gr**	**Zacks Rank**
$21.20	16.4	$484 MM	$1.28	6.0%	$324 MM	7%	-8%	0%	Sell

The Empire District Electric Company is an operating public utility engaged in the generation, purchase, transmission, distribution and sale of electricity in parts of Missouri, Kansas, Oklahoma and Arkansas. The Company also provides water service to several towns in Missouri.

Ave Broker Rec	**#Up**	**#Dn**
HOLD	0	0

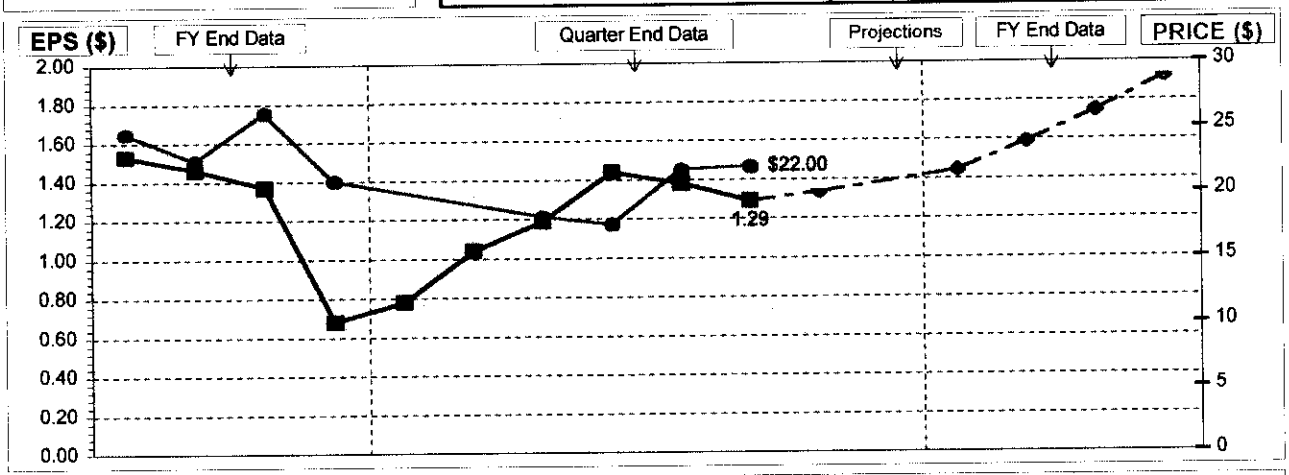
Broker Recommendations

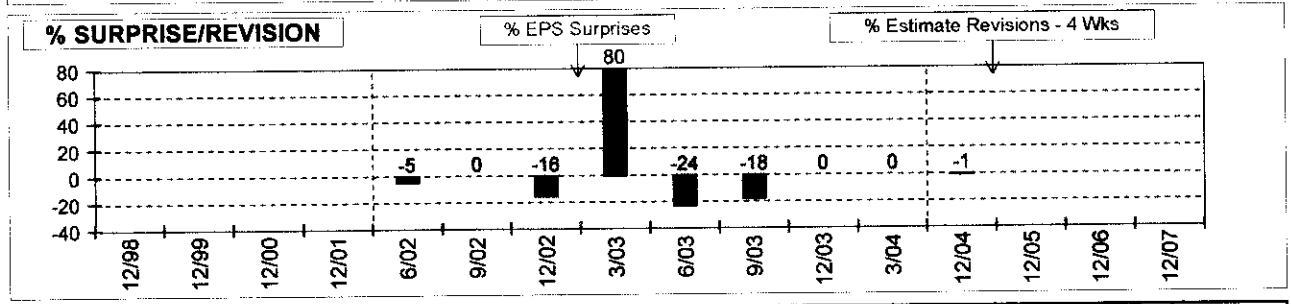


Price/Volume Data	
52-Wk High	$22.44
Low	$16.50
PriceChg-YTD	16%
-YTD(Rel)	-2%
Avg Dly Vol	51 000s
Exp Return/Risk	
Impl Ret=Yld+Gr	16%
Beta	0.06
Shareholder Data	
Shares Out	22.8 MM
Institutions	26.72%
Insiders	

EPS,P/E and Growth Rates			Yr/Yr
FY	**EPS**	**P/E**	**EPS Gr**
12/02 Act	1.24	14.7	82%
12/03 Est	1.40	15.1	13%
12/04 Est	1.44	14.7	3%
Last 5Yr			-8%
Next 3-5Yr (Est)			10%

Other Key Measures	**Current**	**5-Year Avg**
P/E (12 Mo)	16.4	18.6
Rel P/E	69%	
Net Margin	9%	8.3%
ROE	8.8%	9.4%
LT Debt/Cap	55%	53%





UTIL-ELEC PWR	*Industry Comparables*						Impl				
	Pr Chg	**P/E**	**EPS Gr**	**Price/**	**Price/**	**Price/**	**Ret/**	**Div**	**Net**		**Debt/**
Industry # 193	**YTD**	**(12Mo)**	**5Yr Est**	**Book**	**Sales**	**CF**	**P/E**	**Yield**	**Margin**	**ROE**	**Cap**
EMPIRE DISTRICT	16%	16.4	10%	1.5	1.5	9.2	0.98	6.0%	9.0%	9%	55%
INDUSTRY AVG*		13.6	5%	1.4		6.0	0.63	3.8%	6.2%	11%	
S&P 500	19%	23.9	7%	5.2				1.6%		17%	

* 103 Companies in industry group.

Latest Splits: 01/30/92 2.000 — Ex-Div. Date: 08/27/03

Item 16, page 8

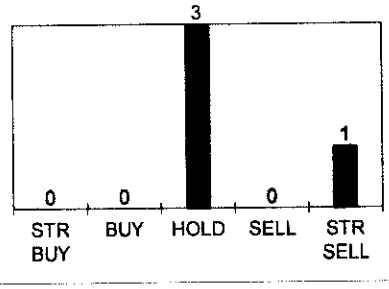
Zacks Company Report as of 10/31/03 — Next EPS Report Date: 02/10/04

				Industry: *UTIL-ELEC PWR*			Type: *Mid*		*Value*
Rec Price	**P/E**	**Mkt Cap**	**Div Rate**	**Yield**	**Sales (12Mo)**	**Sls Gr**	**EPS Gr**	**Div Gr**	**Zacks Rank**
$28.28	14.6	$1138 MM	$0.92	3.3%	$1414 MM	6%	-2%	3%	Buy

PNM Resources is an energy holding company based in Albuquerque, New Mexico. Its principal subsidiary is Public Service Company of New Mexico, which provides electric power and natural gas utility services to more than 1.3 million people in New Mexico. The company also sells power on the wholesale market in the Western U.S.

Ave Broker Rec	#Up	#Dn
HOLD	0	0

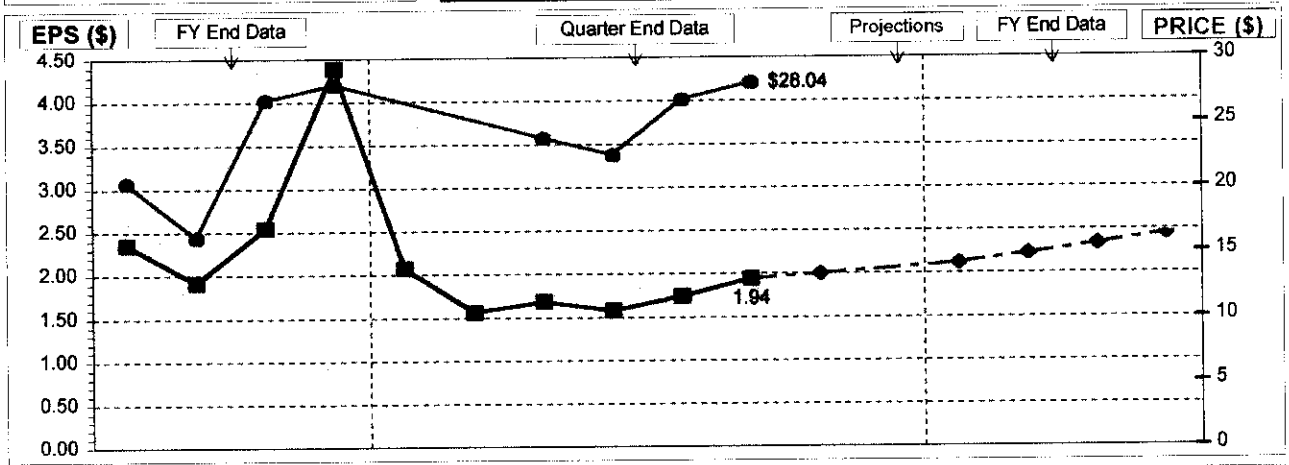
Broker Recommendations

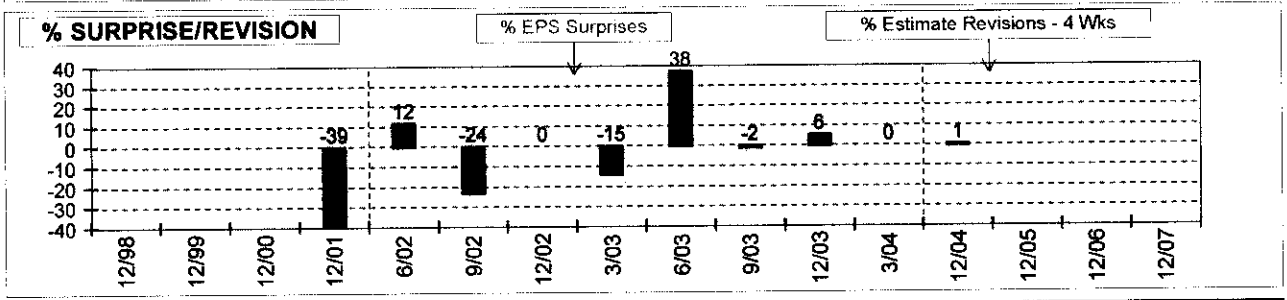


Price/Volume Data	
52-Wk High	$29.46
Low	$19.11
PriceChg-YTD	19%
-YTD(Rel)	-1%
Avg Dly Vol	257 000s
Exp Return/Risk	
Impl Ret=Yld+Gr	8%
Beta	0.62
Shareholder Data	
Shares Out	40.2 MM
Institutions	86.52%
Insiders	

EPS,P/E and Growth Rates			Yr/Yr
FY	EPS	P/E	EPS Gr
12/02 Act	1.68	14.2	-62%
12/03 Est	1.97	14.4	17%
12/04 Est	2.12	13.4	8%
Last 5Yr			-2%
Next 3-5Yr (Est)			5%

Other Key Measures	Current	5-Year Avg
P/E (12 Mo)	14.6	9.9
Rel P/E	61%	
Net Margin	7%	6.7%
ROE	7.6%	10.8%
LT Debt/Cap	48%	50%





UTIL-ELEC PWR	*Industry Comparables*						Impl				
Industry # 193	Pr Chg YTD	P/E (12Mo)	EPS Gr 5Yr Est	Price/ Book	Price/ Sales	Price/ CF	Ret/ P/E	Div Yield	Net Margin	ROE	Debt/ Cap
PNM RESOURCES	19%	14.6	5%	1.0	0.8	6.1	0.57	3.3%	6.6%	8%	48%
INDUSTRY AVG*		13.6	5%	1.4		6.0	0.63	3.8%	6.2%	11%	
S&P 500	19%	23.9	7%	5.2				1.6%		17%	
* 103	Companies in industry group.										

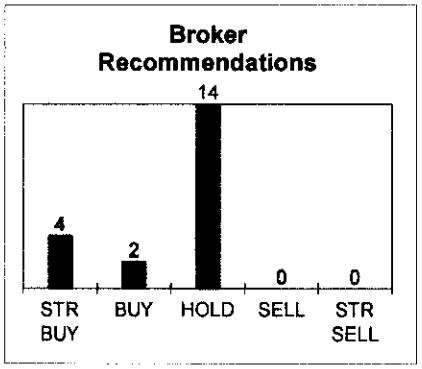
Latest Splits: Ex-Div. Date: 10/30/03

Zacks Company Report as of 10/31/03 Next EPS Report Date: 01/21/04

				Industry: *UTIL-ELEC PWR*			Type: *Large*	*Value*	
Rec Price	**P/E**	**Mkt Cap**	**Div Rate**	**Yield**	**Sales (12Mo)**	**Sls Gr**	**EPS Gr**	**Div Gr**	**Zacks Rank**
$43.10	12.5	$10492 MM	$2.24	5.2%	$8406 MM	32%	8%	3%	Sell

CP & L Energy, Inc. is primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North and South Carolina and Florida and the transmission, distribution and sale of natural gas in portions of North Carolina. The company provides these and other services through its business segments: electric, natural gas and other.

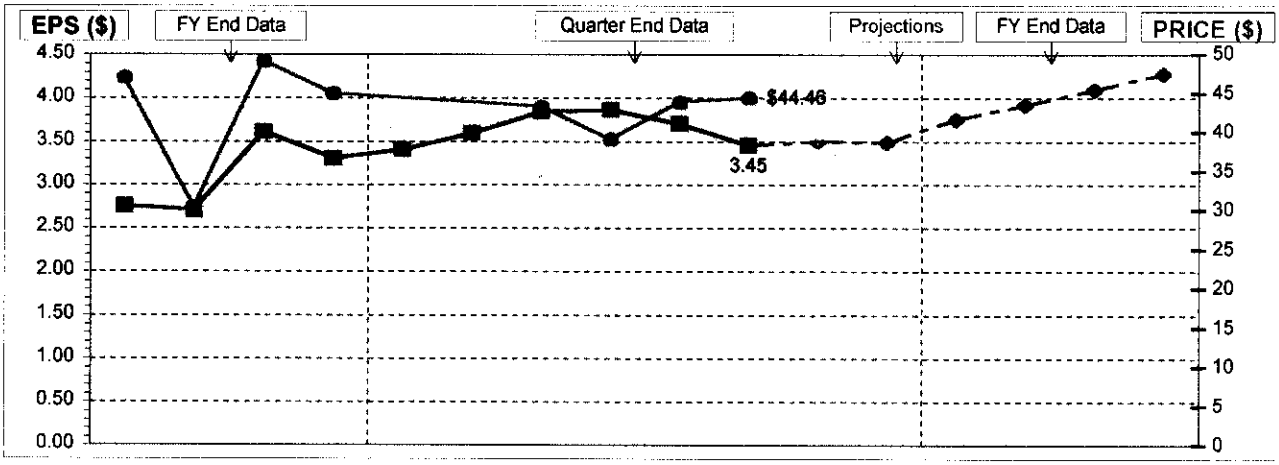
Ave Broker Rec	**#Up**	**#Dn**
HOLD	0	0

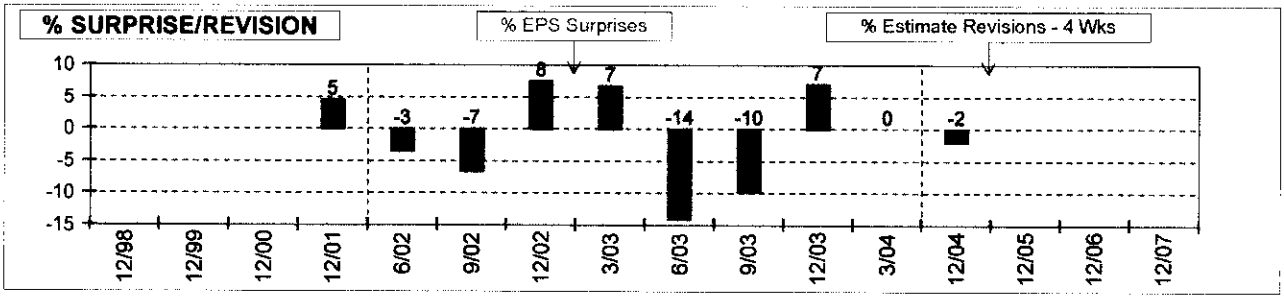


Price/Volume Data	
52-Wk High	$47.38
Low	$38.32
PriceChg-YTD	-1%
-YTD(Rel)	-17%
Avg Dly Vol	787 000s
Exp Return/Risk	
Impl Ret=Yld+Gr	10%
Beta	0.11
Shareholder Data	
Shares Out	243.4 MM
Institutions	54.60%
Insiders	0.70%

EPS,P/E and Growth Rates			Yr/Yr
FY	**EPS**	**P/E**	**EPS Gr**
12/02 Act	3.81	11.4	15%
12/03 Est	3.56	12.1	-7%
12/04 Est	3.75	11.5	5%
Last 5Yr			8%
Next 3-5Yr (Est)			4%

Other Key Measures	**Current**	**5-Year Avg**
P/E (12 Mo)	12.5	13.4
Rel P/E	52%	
Net Margin	10%	9.6%
ROE	11.6%	13.2%
LT Debt/Cap	58%	53%





UTIL-ELEC PWR	*Industry Comparables*						Impl				
	Pr Chg YTD	**P/E (12Mo)**	**EPS Gr 5Yr Est**	**Price/ Book**	**Price/ Sales**	**Price/ CF**	**Ret/ P/E**	**Div Yield**	**Net Margin**	**ROE**	**Debt/ Cap**
Industry # 193											
PROGRESS ENERGY	-1%	12.5	4%	1.4	1.2	5.3	0.77	5.2%	9.6%	12%	58%
INDUSTRY AVG*		13.6	5%	1.4		6.0	0.63	3.8%	6.2%	11%	
S&P 500	19%	23.9	7%	5.2				1.6%		17%	

* 103 Companies in industry group.

Latest Splits: 02/01/93 2.000 Ex-Div. Date: 10/08/03

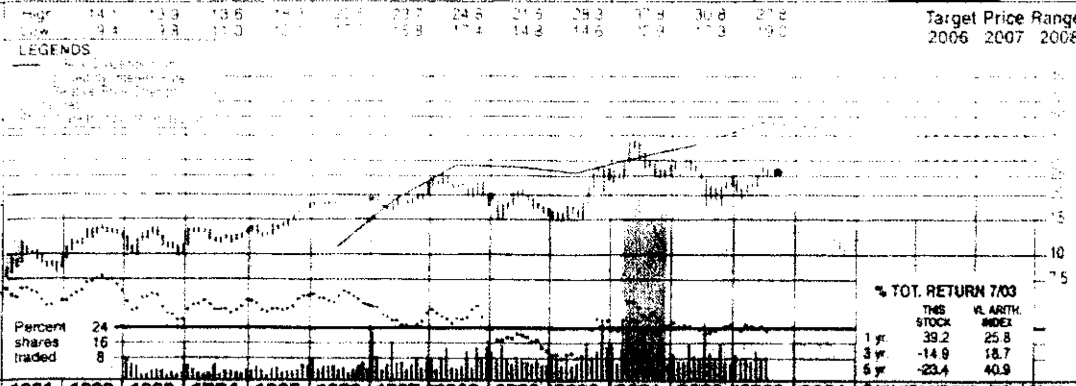
Item 16, page 10

PNM RESOURCES NYSE-PNM

RECENT PRICE 26.20 | P/E RATIO 13.8 (Trailing: 15.7; Median: 9.5) | RELATIVE P/E RATIO 0.81 | DIV'D YLD 3.6% | VALUE LINE 1785

TIMELINESS 4 Raised [illegible]
SAFETY 2 Raised [illegible]
TECHNICAL 3 Raised [illegible]
BETA .70 (1.00 = Market)

Target Price Range 2006 2007 2008



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+55%)	14%
Low	30	(+15%)	7%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	0	0	0	0	1	0	0
Options	0	0	0	0	0	0	0	0	2
to Sell	0	0	0	0	0	0	1	0	2

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	73	67	76
to Sell	64	49	52
Hld's(000)	33059	33424	33560

Percent shares traded 24 / 16 / 8

% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	39.2	25.8
3 yr.	-14.9	18.7
5 yr.	-23.4	40.9

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
[illegible]	20.15	21.91	20.47	20.52	20.40	20.92	21.66	19.35	21.15	27.18	26.15	28.44	41.19	60.13	29.88	36.30	36.80	Revenues per sh	39.80
[illegible]	4.15	3.65	2.46	2.65	3.14	3.51	3.83	3.57	3.91	3.86	4.57	4.22	4.73	6.46	4.25	4.50	4.75	"Cash Flow" per sh	5.20
2.00	1.87	1.73	.32	.32	.75	1.21	1.86	1.37	1.72	1.88	2.25	1.93	2.32	3.92	1.61	1.90	2.00	Earnings per sh A	2.15
2.92	1.87	.38	--	--	--	--	--	--	.36	.63	.77	.80	.80	.80	.86	.91	.95	Div'd Decl'd per sh B ■	1.07
2.24	2.67	1.77	1.95	1.91	2.27	2.41	2.86	2.55	2.13	3.07	3.08	2.34	3.75	6.77	6.14	3.90	3.55	Cap'l Spending per sh	3.55
26.88	18.03	18.02	17.36	17.69	15.00	13.29	15.11	16.83	18.06	19.26	20.63	22.11	23.64	25.87	24.90	25.95	27.00	Book Value per sh C	30.20
41.73	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	41.77	40.70	39.12	39.12	39.12	40.20	40.20	Common Shs Outst'g D	40.20
15.2	7.8	7.8	34.7	29.1	16.5	9.5	7.5	10.6	11.0	10.0	9.8	9.5	8.5	7.3	15.1	*Bold figures are*	*Value Line estimates*	Avg Ann'l P/E Ratio	16.5
1.02	.66	.59	2.58	1.86	1.00	.56	.49	.71	.69	.58	.51	.54	.55	.37	.82			Relative P/E Ratio	1.10
6.6%	12.0%	2.8%	--	--	--	--	--	--	1.9%	3.3%	3.5%	4.4%	4.1%	2.8%	3.5%			Avg Ann'l Div'd Yield	3.1%

CAPITAL STRUCTURE as of 3/31/03
Total Debt $1150.1 mill. Due in 5 Yrs $448.0 mill.
LT Debt $980.1 mill. LT Interest $56.4 mill.
(LT interest earned: 2.3x)

Pension Assets-12/02 $319.1 mill. Oblig. $426.9 mill.

Pfd Stock $12.8 mill. Pfd Div'd $.6 mill.
[illegible],000 shs. 4.58%, $100 par w/o mandatory redemption.
Sinking fund began 2/1/84

Common Stock 39,117,799 shs. as of 5/1/03
MARKET CAP: $1.0 billion (Mid Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
873.9	904.7	808.5	883.4	1136.3	1092.4	1157.5	1611.3	2352.1	1169.0	1460	1480	Revenues ($mill)	1600
57.6	75.7	60.9	72.6	79.3	105.2	79.9	82.7	156.3	64.3	75.0	80.0	Net Profit ($mill)	85.0
30.9%	36.9%	45.5%	35.2%	37.1%	34.9%	34.6%	44.5%	34.2%	24.5%	25.0%	25.0%	Income Tax Rate	25.0%
.7%	.4%	--	--	--	--	--	--	--	--	--	--	AFUDC % to Net Profit	--
60.0%	51.5%	50.5%	48.2%	46.6%	53.2%	52.0%	50.4%	48.2%	49.8%	48.0%	47.0%	Long-Term Debt Ratio	44.5%
34.8%	43.2%	48.7%	50.9%	52.5%	45.4%	47.3%	48.9%	51.1%	49.5%	51.0%	52.0%	Common Equity Ratio	55.0%
1596.4	1460.5	1444.5	1481.0	1531.2	1896.4	1901.2	1881.3	1978.7	1966.9	2035	2080	Total Capital ($mill)	2205
1703.9	1696.7	1574.4	1552.7	1573.2	1593.8	1582.4	1617.3	1781.0	1867.3	1915	1945	Net Plant ($mill)	2015
5.9%	7.4%	6.2%	6.6%	6.7%	6.9%	5.9%	6.6%	9.5%	4.7%	5.0%	5.5%	Return on Total Cap'l	5.0%
9.0%	10.7%	8.5%	9.5%	9.7%	11.3%	8.8%	9.9%	15.3%	6.5%	7.0%	7.5%	Return on Shr. Equity	7.0%
9.2%	11.0%	7.9%	9.5%	9.8%	12.1%	8.8%	10.0%	15.4%	6.5%	7.0%	7.5%	Return on Com Equity E	7.0%
9.2%	11.0%	7.9%	7.6%	6.5%	8.4%	5.2%	6.5%	12.3%	3.1%	4.0%	4.0%	Retained to Com Eq	3.5%
11%	8%	8%	21%	34%	31%	42%	35%	20%	53%	48%	48%	All Div'ds to Net Prof	50%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+4.2	+2.3	+2.1
[illegible] Use (MWH)	4163	4252	5186
[illegible] Rev. per KWH (¢)	5.16	5.16	5.16
[illegible] Peak (Mw)	1521	1521	1742
[illegible] Summer (Mw)	1368	1397	1456
[illegible] Factor (%)	66.6	69.9	67.5
% Change Customers (yr-end)	+2.0	+2.4	+1.5
[illegible]	268	481	177

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
[illegible]	8.0%	14.0%	1.5%
[illegible]	6.5%	6.5%	Nil
[illegible]	19.0%	9.5%	-3.5%
[illegible]	--	20.0%	4.5%
[illegible]	4.0%	6.6%	3.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
[illegible]	321.3	329.0	499.5	461.5	1611.3
[illegible]	736.5	666.1	621.9	327.6	2352.1
[illegible]	314.0	264.6	289.4	301.0	1169.0
[illegible]	387.7	340.2	360	372.1	1460
[illegible]	360	350	380	390	1480

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
[illegible]	.55	.45	.97	.35	2.32
[illegible]	1.60	1.24	.88	.20	3.92
2002	.63	.28	.45	.25	1.61
2003	.53	.44	.60	.33	1.90
2004	.55	.45	.65	.35	2.00

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.20	.20	.20	.20	.80
2000	.20	.20	.20	.20	.80
2001	.20	.20	.20	.20	.80
2002	.20	.22	.22	.22	.86
2003	.22	.23	.23		

BUSINESS: PNM Resources, parent of Public Service Company of New Mexico, sells electricity (77% of revenues), gas (23%), other less than (1%) in north-central New Mexico (population: 1,300,000). Largest customer: City of Albuquerque. Electric revenue breakdown: residential, 35%; commercial, 43%; industrial, 14%; other, 8%. Area's military establishments are major customers. Fuels: coal, 68%; nuclear, 31%; gas/oil, 1%. Fuel costs: 47% of revs., labor costs: 16%. '02 depreciation rate: 3.4%. Est'd plant age. 13 years. Has 2,656 employees, 15,046 stockholders. Chairman, Chief Executive Officer & President: Jeffry E. Sterba. Incorp.: New Mexico. Address: 414 Silver Avenue, South West, Albuquerque, New Mexico 87102. Telephone: 505-241-2477. Internet: www.pnm.com.

PNM Resources has an agreement with interested parties covering gas rates. The settlement provides for a $20 million increase in base rates and $2 million in miscellaneous customer charges. (The company had filed for $37.6 million.) The additional revenues provide a 10.25% return on equity on the gas utility, compared to an earned return of under 3% in 2002. A further increase in off-system market-based transportation revenues could boost the return by another 1%. The agreement also allows PNM to recover $4.4 million in costs previously approved by the commission but not yet collected. These costs will be recovered over three years. If the regulators approve the arrangement, which we consider likely, the order will take effect in November.

The wholesale power marketing business is performing well. Last year, PNM completed two merchant plants with a combined capacity of 215 megawatts (mw) in southern New Mexico. These units have good prospects because transmission restraints make importing power into the area difficult. Too, the company recently began operating three combustion turbines with a total capability of 215 mw and will add [illegible] units when market conditions [illegible]. In addition, [illegible] 204 mw of wind power [illegible] eastern New Mexico. PNM will buy [illegible] output for 25 years. The sale of energy generated by these plants will be free of commission oversight. The market for their output is strong.

Earnings will likely move higher this year. Since the state has no fuel adjustment clause, lower coal costs resulting from the shift from surface to underground mining will boost profits. Other pluses include a reduced payroll and expected gains on wholesale and retail energy sales. Overall, we estimate an 18% rise in 2003 earnings, to $1.90 a share. The gas rate agreement should help lift earnings next year. For now, the stock is untimely.

The yield is a cut below the group average. But a low payout ratio and steady earnings gains to 2006-2008 suggest above-average dividend growth over the same timeframe. At the stock's recent price, we rate PNM an average utility investment.

Arthur H. Medalie *August 15, 2003*

(A) EPS diluted. Next egs rep't due late Oct. Excl. nonrecur. gains (losses): '88, ($4.81); '90, (55¢); '92, ($3.42); '93, ($2.85); '94, 11¢; '95, net: 35¢; '97, 4¢; '98, net (24¢); '99, 8¢; '00, 21¢; '01, (15¢); '03, 69¢. (B) Div'ds historically paid in mid-Feb., mid-May, mid-Aug., and mid-Nov. ■Div'd reinvest. plan avail. (C) Incl. intang. in '02: $9.34/sh. (D) In mill. (E) Rate base: net orig. cost. Elect. ROE allow. in '90: 12.52%; earned on avg. com. eq. '02: 6.6%. Regul. Clim.: Avg.

Company's Financial Strength	B++
Stock's Price Stability	90
Price Growth Persistence	70
Earnings Predictability	50

Item 16, page 11

CINERGY NYSE-CIN

RECENT PRICE 37.38 | P/E RATIO 14.1 (Trailing: 15.3, Median: 14.0) | RELATIVE P/E RATIO 0.84 | DIV'D YLD 5.0% | VALUE LINE 703

TIMELINESS 3
SAFETY 2
TECHNICAL 3

LEGENDS

Target Price Range 2006 2007 2008

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+35%)	12%
Low	40	(+5%)	7%

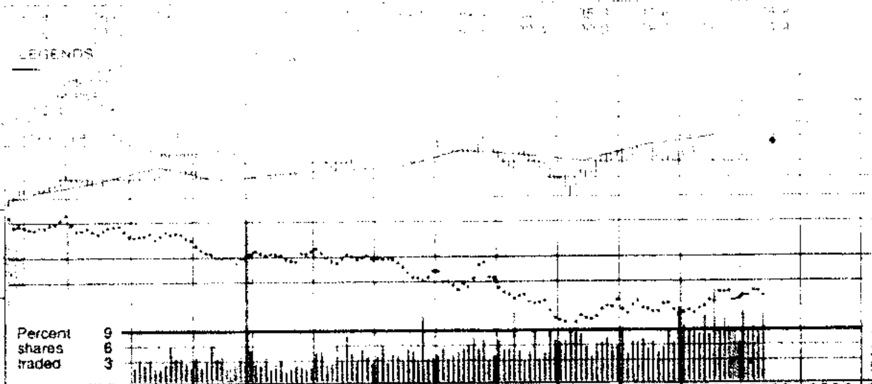
Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	2	0	0	0	0	1
to Sell	0	0	0	0	0	0	0	1	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	128	164	163
to Sell	137	111	108
Hld's(000)	100544	104845	112384

Percent shares traded 9 6 3



% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	10.0	-4.1
3 yr.	65.0	12.0
5 yr.	53.4	23.8

Cinergy was formed on October 24, 1994 through the merger of Cincinnati Gas & Electric and PSI Resources. Each common share of Cincinnati Gas & Electric was exchanged for 1.00 share of Cinergy, while each common share of PSI Resources was exchanged for 1.023 Cinergy shares. Pre-merger data are figures for Cincinnati Gas & Electric only and are not comparable to Cinergy data.

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
19.89	18.84	19.23	20.57	27.59	37.04	37.36	52.98	81.07	70.91	*34.20*	*34.35*	Revenues per sh	*34.80*
3.87	3.13	3.98	3.99	4.75	4.02	4.34	4.87	5.15	4.59	*5.10*	*5.35*	"Cash Flow" per sh	*6.00*
2.16	1.30	2.22	2.19	2.30	1.97	2.10	2.50	2.75	2.22	*2.65*	*2.75*	Earnings per sh A	*3.05*
1.68	[illegible]	1.72	1.74	1.80	1.80	1.80	1.80	1.80	1.80	*1.84*	*1.88*	Div'd Decl'd per sh B■	*2.00*
2.26	3.39	2.06	2.05	2.08	2.32	2.43	3.27	5.31	5.08	*4.25*	*3.80*	Cap'l Spending per sh	*2.95*
17.25	15.56	16.17	16.39	16.10	16.02	16.70	17.36	18.45	19.53	*21.00*	*22.05*	Book Value per sh C	*25.40*
88.06	[illegible]	157.67	157.68	157.74	158.66	158.92	158.97	159.40	168.66	*177.10*	*179.80*	Common Shs Outst'g F	*187.90*
12.5	[illegible]	11.9	14.1	14.9	17.6	14.2	11.0	11.7	15.0	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*15.0*
.74	[illegible]	.80	.88	.86	.92	.81	.72	.60	.82			Relative P/E Ratio	*1.00*
6.2%	[illegible]	6.5%	5.6%	5.3%	5.2%	6.1%	6.6%	5.6%	5.4%			Avg Ann'l Div'd Yield	*4.4%*
1751.7	[illegible]	3031.4	3242.7	4352.8	5876.3	5937.9	8422.0	12923	11960	*6060*	*6180*	Revenues ($mill)	*6540*
214.0	[illegible]	378.0	369.0	472.0	318.1	340.8	404.1	446.8	364.0	*485*	*515*	Net Profit ($mill)	*595*
31.7%	40.2%	36.7%	37.2%	34.5%	26.9%	38.0%	38.4%	36.4%	30.2%	*36.0%*	*36.0%*	Income Tax Rate	*36.0%*
3.1%	[illegible]	2.7%	2.0%	1.2%	.5%	1.2%	2.0%	7.3%	5.6%	*5.0%*	*4.0%*	AFUDC % to Net Profit	*3.0%*
49.7%	46.4%	46.3%	47.7%	44.2%	49.7%	52.1%	50.2%	52.1%	52.7%	*50.0%*	*48.0%*	Long-Term Debt Ratio	*43.0%*
41.3%	[illegible]	46.6%	48.6%	52.2%	48.5%	46.3%	48.2%	42.6%	42.5%	*45.5%*	*47.5%*	Common Equity Ratio	*53.0%*
3678.3	[illegible]	5467.5	5313.7	4868.1	5238.3	5735.6	5728.2	6907.4	7745.3	*8175*	*8315*	Total Capital ($mill)	*9020*
3785.6	[illegible]	6251.1	6289.6	6297.1	6344.5	6417.5	6630.4	8236.9	8645.7	*8960*	*9140*	Net Plant ($mill)	*9200*
7.9%	[illegible]	8.9%	8.7%	11.6%	7.7%	7.7%	8.4%	7.9%	6.1%	*7.5%*	*7.5%*	Return on Total Cap'l	*8.0%*
11.6%	[illegible]	12.9%	13.3%	17.4%	12.1%	12.4%	14.2%	13.5%	9.9%	*12.0%*	*12.0%*	Return on Shr. Equity	*11.5%*
12.4%	[illegible]	13.6%	13.4%	18.1%	12.3%	12.6%	14.5%	15.0%	10.9%	*12.5%*	*12.5%*	Return on Com Equity D	*12.0%*
2.8%	NMF	3.1%	2.8%	6.9%	1.1%	1.9%	4.1%	5.3%	1.9%	*4.0%*	*4.0%*	Retained to Com Eq	*4.0%*
80%	[illegible]	79%	81%	63%	91%	86%	72%	65%	83%	*71%*	*70%*	All Div'ds to Net Prof	*67%*

CAPITAL STRUCTURE as of 3/31/03
Total Debt $4623.5 mill. **Due in 5 Yrs** $2374.5 mill.
LT Debt $3977.0 mill. **LT Interest** $209.0 mill.
(LT interest earned: 3.8x)
Pension Assets-12/02 $756.5 mill. Oblig.-$1314.9 mill.
Pfd Stock $371.5 mill. **Pfd Div'd** $24.7 mill.
552,451 shs. 3.5% to 6.875% ($100 par), callable at $100 to $108 a sh.; 303,544 shs. 4.16% to 4.32% $25 par, call. at $25, $308.2 mill. preferred trust securities.

Common Stock 175,876,919 shs.
MARKET CAP: $6.6 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+3.8	-1.0	+.8
Avg. Indust. Use (MWH)	2880	2751	2701
Avg. Indust. Revs. per KWH (¢)	3.79	4.10	4.01
Capacity at Peak (Mw)	10996	11083	11249
Peak Load, Summer (Mw)	10141	11091	11133
Annual Load Factor (%)	63.8	NA	NA
% Change Customers (yr-end)	+2.0	+1.3	+.8
Fixed Charge Cov. (%)	365	328	282

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	14.0%	25.0%	NMF
"Cash Flow"	2.5%	3.0%	[illegible]
Earnings	.5%	2.0%	[illegible]
Dividends	1.0%	.5%	[illegible]
Book Value	[illegible]	2.5%	5.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	1583	1770	2300	2769	8422
2001	3707	3642	3324	2250	12923
2002	2192	2471	3880	3417	11960
2003	1282	*1320*	*1800*	*1658*	*6060*
2004	*1310*	*1350*	*1830*	*1690*	*6180*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.87	.47	.58	.58	2.50
2001	.75	.51	.80	.69	2.75
2002	.58	.27	.78	.59	2.22
2003	.80	*.45*	*.80*	*.60*	*2.65*
2004	*.72*	*.50*	*.85*	*.68*	*2.75*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.45	.45	.45	.45	1.80
2000	.45	.45	.45	.45	1.80
2001	.45	.45	.45	.45	1.80
2002	.45	.45	.45	.45	1.80
2003	.46	.46			

BUSINESS: Cinergy Corp. is a holding company formed through the merger of Cincinnati Gas & Electric and PSI Resources. Supplies elect. (85% of revs.) to 1,500,000 customers, natural gas (15%) to 495,000 customers, in Ohio, Kentucky, and Indiana. Elect. (Gas) revs.: resid. 43% (66%); commer., 28% (28%); indust., 25% (4%); other 4% (4%). The primary metal and chemical industries are the largest customers. Fuel costs: 38% of revenues. '02 deprec rate: 3.0%. Est'd plant age: 12 years. Fuels: coal, 87%; natural gas, 8%; other, 5%. Has 7,823 employees, 55,637 common stockholders. Chairman, President & CEO: James E. Rogers. Inc.: Delaware. Address: 139 East 4th St., Cincinnati, OH 45202. Tel.: 513-381-2000. Internet: www.cinergy.com.

Cinergy's capital budget soared in 2001, and will remain high through 2003, largely because of the need to comply with the U.S. Environmental Protection Agency's directive to reduce nitrogen oxide emissions at the company's coal-fired plants. EPA had filed suit against CIN for noncompliance with The Clean Air Act and seeks $27,500 per day for each violation since March, 2000. To meet EPA requirements, management converted its Noblesville coal-burning unit to a gas burner and is making similar changes at nine small coal plants. The bulk of the $800 million outlays to lower pollution and upgrade nitrogen oxide reduction technology is near completion and should be finalized next year. Construction spending will then decline, and CIN should be able to induce the EPA to drop its lawsuit.

The company has lowered its rate request in Indiana by $25 million, to $200 million. The revised amount reflects an updated evaluation of the utility's needs. The application seeks recovery of the $376 million purchase of two natural gas-fired units from CIN's unregulated affiliate, the repowering of the Noblesville unit, and improvements to the transmission system. In addition, some $68 million is being sought for environmental expenditures. Under Indiana law, a portion of this amount will be phased in prior to 2004 for preapproved projects. A regulatory order on the petition is due in February.

Earnings are on an upward path. Positives include a reduced headcount resulting from last year's retirement program, a likely 1%-2% rise in retail energy sales, and a full year of the May, 2002 gas rate increase in Ohio. But these gains will be pared somewhat by the dilutive effect of more common shares outstanding and higher pension and medical costs. On balance, we look for 2003 earnings of $2.65 a share. A likely rate hike in Indiana suggests improved results next year.

Income-oriented investors might consider these shares. The yield is a full percentage point above the industry norm. Too, a reduction in environmental spending and our projection of steady earnings growth to 2006-2008 should allow increased dividends at a rate a cut above that of the group.

Arthur H. Medalie *July 4, 2003*

(A) EPS diluted. Excl. extraord. gains (losses): '93, ($2.55); '96, (12¢); '97, (69¢); '98, (32¢); '99, 43¢; '03, 15¢. Next egs. rpt. due late July. (B) Div'ds historically paid mid-Feb., mid-May, mid-Aug., and mid-Nov. ■ Div'd reinvest. plan avail. (C) Incl. def. chgs. in '02, $6.41/sh. (D) Rate base: net original cost. Allowed on com. eq. Ohio in '03 elect. 12.9%; Indiana in '96: 11.0%. Earned avg. com. eq. '02: 11.9%. Regul. Clim.: Above Avg. (E) Pro forma. (F) In mill., adjust. for split.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	25
Earnings Predictability	90

Item 16. page 12

CONSTELL'N EGY GP. NYSE-CEG

RECENT PRICE 35.77 | P/E RATIO 12.9 (Trailing 15.5; Median 14.0) | RELATIVE P/E RATIO 0.74 | DIV'D YLD 3.0% | VALUE LINE 159

TIMELINESS 3 | SAFETY 2 | TECHNICAL 3 | BETA [illegible]

Target Price Range 2006 2007 2008

LEGENDS

High	24.4	27.3	26.5							32.4	35.9
Low	19.9	20.4	20.5							19.3	25.2

2006-08 PROJECTIONS

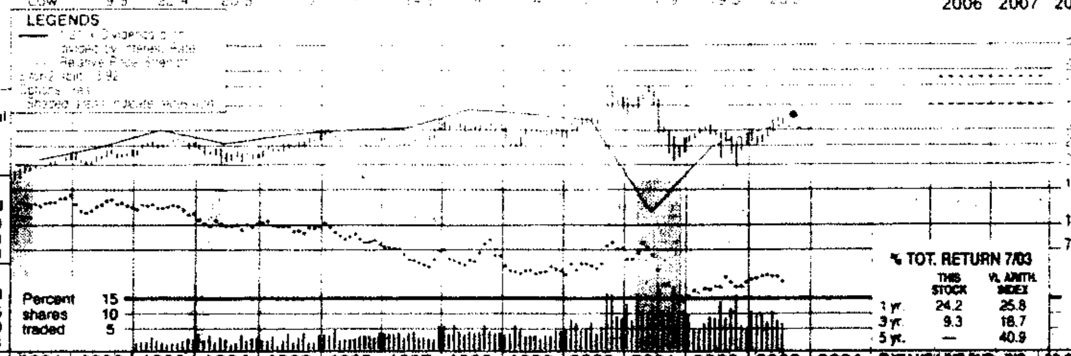
	Price	Gain	Ann'l Total Return
High	55	(+55%)	14%
Low	40	(+10%)	6%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	1	0
to Sell	0	0	0	0	0	0	0	1	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	116	119	145
to Sell	126	120	100
Hld's(000)	113370	105655	104588



% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	24.2	25.8
3 yr.	9.3	18.7
5 yr.	—	40.9

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
15.28	15.67	16.63	17.81	19.41	17.33	18.27	18.86	19.69	21.35	22.40	22.50	25.32	25.77	24.00	28.53	57.15	59.55	Revenues per sh	71.95
3.84	3.98	3.45	2.91	3.08	3.10	3.45	3.93	4.59	4.45	4.66	4.93	5.57	5.78	5.02	5.50	5.90	6.25	"Cash Flow" per sh	7.80
2.31	2.31	2.03	1.40	1.52	1.63	1.85	1.93	2.02	1.55	1.97	2.06	2.18	2.30	2.20	2.29	2.70	2.95	Earnings per sh A	4.00
1.25	1.32	1.39	1.40	1.40	1.43	1.47	1.51	1.55	1.59	1.63	1.67	1.68	1.68	.48	.96	1.04	1.12	Div'd Decl'd per sh B■	1.36
2.74	3.66	4.05	4.42	3.60	2.71	3.27	3.27	2.48	2.44	2.53	2.27	2.92	7.17	8.05	5.05	4.40	3.95	Cap'l Spending per sh	3.50
14.83	15.85	16.60	17.10	17.00	17.63	17.94	18.42	19.07	19.35	19.44	19.98	20.01	20.95	23.48	23.43	24.20	25.85	Book Value per sh C	32.65
118.37	118.95	120.52	121.21	126.69	143.78	146.03	147.53	147.53	147.67	147.67	149.25	149.56	150.53	163.71	164.84	166.25	167.50	Common Shs Outst'g D	165.00
9.1	9.1	10.4	13.7	13.2	13.6	13.8	11.8	12.4	14.7	14.0	15.3	13.2	15.8	16.4	12.1	Bold figures are		Avg Ann'l P/E Ratio	11.5
.61	.76	.79	1.02	.84	.82	.82	.77	.83	.92	.81	.80	.75	1.03	.84	.66	Value Line		Relative P/E Ratio	.75
6.0%	6.3%	6.6%	7.3%	7.0%	6.5%	5.8%	6.6%	6.2%	5.9%	5.9%	5.3%	5.8%	4.6%	1.3%	3.5%	estimates		Avg Ann'l Div'd Yield	3.0%

CAPITAL STRUCTURE as of 6/30/03
Total Debt $5645.4 mill. Due in 5 Yrs $2755 mill.
LT Debt $5063.8 mill. LT Interest $315.0 mill.
(LT interest earned: 3.0x)
Pension Assets-12/02 $767.7 mill.
Oblig. $1.25 bill.
Pfd Stock $190.0 mill. Pfd Div'd $13.2 mill.
Incl. 400,000 shs. 7.125% preference, callable 7/1/03; 500,000 shs. 6.97% pref., call. 10/1/03; 400,000 shs. 6.70% pref., call. 1/1/04; 600,000 shs. 6.99% pref., call. 10/1/05; all $100 par, not subj. to mand. redemption.
Common Stock 166,600,000 shs.
MARKET CAP: $6.0 billion (Large Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
2668.7	2783.0	2934.8	3153.2	3307.6	3358.1	3786.2	3878.5	3928.3	4703.0	9500	9975	Revenues ($mill)	11875
309.9	323.6	338.0	310.8	320.3	327.7	339.9	358.5	366.3	372.1	460	505	Net Profit ($mill)	675
30.8%	32.2%	33.4%	34.9%	35.8%	35.2%	35.4%	39.1%	34.6%	40.3%	38.0%	38.0%	Income Tax Rate	38.0%
7.3%	10.4%	6.5%	8.3%	5.2%	4.1%	2.9%	--	15.7%	11.8%	11.0%	10.0%	AFUDC % to Net Profit	8.0%
47.1%	44.6%	43.9%	46.3%	48.5%	49.7%	44.7%	48.6%	40.2%	53.2%	55.0%	55.0%	Long-Term Debt Ratio	53.5%
43.7%	46.9%	47.5%	47.9%	46.6%	47.3%	52.0%	48.5%	57.0%	44.6%	43.0%	40.0%	Common Equity Ratio	45.0%
5995.3	5791.5	5922.1	5969.4	6159.3	6299.6	5758.4	6502.3	6746.1	[illegible]	9415	10000	Total Capital ($mill)	12000
5196.9	5416.8	5497.6	5582.4	5651.5	5656.7	5523.1	6644.0	7700.4	7957.1	9535	9900	Net Plant ($mill)	11100
6.9%	7.2%	7.3%	6.7%	6.8%	6.9%	7.5%	7.1%	6.5%	5.9%	6.5%	6.5%	Return on Total Cap'l	7.0%
9.8%	10.1%	10.2%	9.7%	10.1%	10.3%	10.7%	10.7%	9.1%	9.2%	11.0%	11.0%	Return on Shr. Equity	12.0%
10.2%	10.4%	10.6%	9.8%	10.1%	10.3%	10.9%	11.0%	9.2%	9.3%	11.0%	11.5%	Return on Com Equity E	12.0%
2.1%	2.3%	2.5%	1.4%	1.8%	2.0%	2.5%	3.0%	6.0%	5.7%	7.0%	7.0%	Retained to Com Eq	8.0%
82%	80%	79%	87%	84%	81%	78%	74%	37%	41%	39%	40%	All Div'ds to Net Prof	35%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
[illegible]	+3.2	[illegible]	+4.7
[illegible]	895	[illegible]	913
[illegible]	[illegible]	[illegible]	3.79
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	N/A	[illegible]	[illegible]

[illegible]

2000	[illegible]	[illegible]	[illegible]	[illegible]	3878.5
2001	[illegible]	[illegible]	[illegible]	[illegible]	3928.3
2002	[illegible]	1029.8	1270.3	[illegible]	4703.0
2003	[illegible]	2271.1	2700	[illegible]	9500
2004	[illegible]	[illegible]	[illegible]	2300	9975

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.30
[illegible]	[illegible]	[illegible]	1.00	[illegible]	2.20
2002	.40	[illegible]	1.02	.36	2.29
2003	.35	.58	1.14	.63	2.70
2004	.42	[illegible]	1.21	[illegible]	2.95

Cal-endar	QUARTERLY DIVIDENDS PAID B■				Full Year
[illegible]	.42	[illegible]	[illegible]	[illegible]	1.68
[illegible]	.42	[illegible]	[illegible]	[illegible]	1.68
2001	.42	[illegible]	[illegible]	.12	[illegible]
2002	.12	[illegible]	[illegible]	.24	[illegible]
[illegible]	.24	[illegible]	[illegible]	[illegible]	[illegible]

BUSINESS: Constellation Energy Group, a holding company, sells electricity (88% of revenues) and gas (12%) service. through Baltimore Gas and Electric, in central Maryland to a population of 2.5 million. The remaining 46% of revenues are derived from the nonregulated business, Constellation Enterprises. 2002 electric revenue sources: residential, 48.2%; commercial, 41.2%; industrial, [illegible] 6.6% [illegible] '02 gas revenue sources: resid'l, 61.7%; com'l, 20.4% [illegible] other, 13.9%. Fuel sources: coal, [illegible] 53.4% [illegible] other, 2.5%. Has about [illegible] employees. [illegible]

[illegible] Constellation [illegible] operating [illegible] increased fuel (natural gas) costs, and limited power market liquidity, which [illegible] restrained operating income. [illegible] utility, BGE, benefiting from [illegible] normal temperatures, though, helped [illegible] contain the negative year-over-year share-net comparison. In the second quarter (and into the current period), the operating situation reversed. The power market was much less volatile, and merchant operations gained from new wholesale transactions, improved plant productivity and efficiency, and acquisitions (e.g., NewEnergy). Higher nonregulated income more than made up for reduced earnings at BGE brought on by a continuation of cool [illegible] weather throughout the local service territory. CEG remains on track for attaining its 2003 earnings goal of [illegible] a share. We have become a bit more conservative regarding our 2003 and 2004 share-net estimates, though, cutting them by [illegible] and a dime, respectively.

[illegible] years [illegible] it can save $120 million [illegible] annually through [illegible] This would support CEG's [illegible] share earnings at a rate close to [illegible] a year. We expect good cash flow progress going forward.

Management is weighing options to boost investor value. It appears that the company [illegible] to invest, using cash balances [illegible] that have the potential for [illegible] returns. Absent any appealing [illegible], CEG would most likely buy back common and/or pay down debt. In any [illegible] the dividend, considering the [illegible] favorable earnings potential [illegible] payout ratio should [illegible] ahead of the industry average. [illegible] an attractive utility holding [illegible] to 2006-2008.

[illegible]

[illegible] Apr., July, and Oct. [illegible] DRIP [illegible] [illegible] '02: $3.29/sh. (D) In [illegible] gar ('98). [illegible] Cmn. Avg. (F) Incl. [illegible]

Item 16, page 13

DTE ENERGY CO. NYSE-DTE

RECENT PRICE 39.50 | P/E RATIO 13.9 (Trailing: 12.2; Median: 11.0) | RELATIVE P/E RATIO 0.83 | DIV'D YLD 5.2% | VALUE LINE 706

TIMELINESS 4 Lowered 5/16/03
SAFETY 3 Lowered 10/5/01
TECHNICAL 3 Lowered 2/7/03
BETA .60 (1.00 = Market)

High:	35.3	37.1	30.3	34.9	37.3	34.8	49.3	44.7	41.3	47.1	47.7	49.5
Low:	30.3	29.9	24.3	25.8	27.6	26.1	33.4	31.1	28.4	33.1	33.1	38.5

Target Price Range 2006 2007 2008

LEGENDS
— 1.01 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area indicates recession

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+65%)	16%
Low	45	(+15%)	8%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	1	6	1	0	0	0
to Sell	0	0	0	2	[illegible]	[illegible]	[illegible]	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	149	155	163
to Sell	106	112	123
Hld's(000)	88362	91417	84564

Percent shares traded 15 10 5

% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	-2.7	-4.1
3 yr.	42.5	12.0
5 yr.	38.4	23.8

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
24.18	24.29	25.05	[illegible]	[illegible]	[illegible]	32.60	39.24	48.71	48.30	43.60	45.15	Revenues per sh	[illegible]
[illegible]	[illegible]	7.97	[illegible]	[illegible]	[illegible]	[illegible]	6.59	6.98	8.31	7.55	8.50	"Cash Flow" per sh	[illegible]
[illegible]	[illegible]	3.02	[illegible]	[illegible]	[illegible]	[illegible]	3.27	[illegible]	3.83	2.85	3.60	Earnings per sh A	[illegible]
[illegible]	[illegible]	2.06	[illegible]	[illegible]	[illegible]	[illegible]	2.06	[illegible]	2.06	2.06	2.06	Div'd Decl'd per sh B ■	[illegible]
[illegible]	[illegible]	4.13	[illegible]	[illegible]	[illegible]	[illegible]	6.25	[illegible]	5.86	5.65	4.70	Cap'l Spending per sh	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Book Value per sh C	[illegible]
[illegible]	[illegible]	145.12	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Common Shs Outst'g D	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Bold figures are	Value Line	Avg Ann'l P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	estimates		Relative P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			Avg Ann'l Div'd Yield	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8749.0	[illegible]	[illegible]	Revenues ($mill)	[illegible]
[illegible]	[illegible]	405.7	[illegible]	229.0	[illegible]	[illegible]	[illegible]	[illegible]	632.0	[illegible]	[illegible]	Net Profit ($mill)	[illegible]
[illegible]	38.9%	[illegible]	[illegible]	37.5%	[illegible]	[illegible]	[illegible]	[illegible]	NMF	[illegible]	[illegible]	Income Tax Rate	[illegible]
2.4%	2.7%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.9%	5.0%	4.0%	AFUDC % to Net Profit	[illegible]
51.9%	51.6%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	50.3%	[illegible]	63.0%	62.5%	[illegible]	Long-Term Debt Ratio	[illegible]
43.1%	[illegible]	[illegible]	46.0%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	37.0%	37.5%	[illegible]	Common Equity Ratio	[illegible]
7648.3	7657.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8077.0	12517	12350	[illegible]	[illegible]	Total Capital ($mill)	[illegible]
8989.5	8913.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7387.0	9543.0	9813.0	9875	9825	Net Plant ($mill)	[illegible]
8.9%	7.3%	7.9%	7.5%	7.4%	7.4%	7.9%	7.5%	4.4%	7.3%	6.0%	6.5%	Return on Total Cap'l	[illegible]
14.2%	11.3%	12.4%	11.8%	11.6%	12.1%	12.4%	11.7%	7.2%	13.8%	10.0%	12.0%	Return on Shr. Equity	[illegible]
14.9%	11.7%	12.7%	11.8%	11.7%	12.0%	[illegible]	11.7%	7.2%	13.8%	10.0%	12.0%	Return on Com Equity E	[illegible]
5.8%	2.7%	4.1%	3.1%	3.3%	3.9%	4.7%	4.3%	1%	6.4%	3.0%	5.0%	Retained to Com Eq	5.5%
63%	79%	70%	75%	72%	88%	82%	63%	99%	53%	72%	57%	All Div'ds to Net Prof	[illegible]

CAPITAL STRUCTURE as of [illegible]
Total Debt $[illegible]
LT Debt $7720.0 [illegible]
Incl. $81.0 mill. [illegible] $271.0 mill.
Mandatorily [illegible] Securities,
$189.0 equity-[illegible] securities, $[illegible] bill. securitized bonds.
(LT interest earned: [illegible])
Leases, Uncapitalized Annual rentals $40.0 mill.
Pension Assets-12/02 $1.85 bill. Oblig. $2.50 bill.
Pfd Stock None
Common Stock 167,974,053 shs. as of 4/30/03
MARKET CAP: $6.6 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+1.1	-4.1	+.7
Avg. Indust. Use (MWH)	16090	14429	13589
Avg. Indust. Revs. per KWH (¢)	5.27	5.86	5.15
Capacity at Peak (Mw)	11053	11953	11080
Peak Load, Summer (Mw)	10919	11860	11308
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+1.0	+.7	+.6

Fixed Charge Cov. (%)	[illegible]	245	148	193

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	6.0%	11.0%	3.0%
"Cash Flow"	2.0%	2.0%	4.0%
Earnings	[illegible]	[illegible]	[illegible]
Dividends	[illegible]	[illegible]	[illegible]
Book Value	[illegible]	[illegible]	[illegible]

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2001	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2002	1895	[illegible]	[illegible]	[illegible]	[illegible]
2003	2095	[illegible]	[illegible]	1975	[illegible]
2004	2150	1675	1750	2075	7650

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.81	.76	.73	.97	3.27
2001	.95	d.60	.38	1.34	2.15
2002	1.24	.42	.96	1.21	3.83
2003	.64	.40	.61	1.20	2.85
2004	1.25	.45	.65	1.25	3.60

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.515	.515	.515	.515	2.06
2000	.515	.515	.515	.515	2.06
2001	.515	.515	.515	.515	2.06
2002	.515	.515	.515	.515	2.06
2003	.515	.515			

BUSINESS: DTE Energy Company is a holding company for The Detroit Edison Company, which supplies electricity in Detroit and a 7,600-square-mile area in southeastern Michigan, and Michigan Consolidated Gas (MichCon). Customers: 2.1 mill. electric, 1.3 mill. gas. Acq'd MCN Energy 5/01. Has various nonutility ops. Owns 32% of Plug Power. Electric rev. breakdown, '02: residential, 35%; comm'l, 37%; ind'l, 17%; other, 11%. Generating sources, '02: coal, 64%; nuclear, 16%; other, 3%; purchased, 17%. Fuel costs: 31% of revs. '02 reported deprec. rates: 3.4% elec., 3.6% gas. Has 11,100 employees, 109,000 com. stockholders. Chairman, Pres. & CEO: Anthony F. Earley, Jr. Inc.: MI. Address: 2000 Second Ave., Detroit, MI 48226-1279. Tel.: 313-235-4000. Internet: www.dteenergy.com.

We have cut our earnings estimates for DTE Energy. March-quarter profits were well below our expectations, due in part to a $0.10-a-share reserve for possibly uncollectible gas costs and two small, unusual charges that took $0.14 off the bottom line. We include these three items in our presentation. DTE's goal of $3.75-$3.95 a share excludes them, though that figure was set before a problem with the company's tax-driven synfuels operation arose. DTE hasn't yet received the private letter ruling from the IRS that it needs before it can sell some projects, as was its intent all along. It will curtail production at the facilities, which will reduce earnings by $0.05-$0.07 a share each month. The synfuels problem certainly makes earnings much tougher to estimate than usual. We have slashed our 2003 share-net estimate from $3.95 to $2.85, and our 2004 figure is now $3.60, down from $4.15 previously.

Detroit Edison has filed a rate case. The utility's last base rate increase was 10 years ago. Certain costs, such as those for pensions and healthcare, are up sharply. Detroit Edison seeks a rate hike of $416 million (8%), based on an 11.5% return on equity; a $109 million, five-year surcharge to recover regulatory assets, including costs associated with customer choice in the state and environmental capital expenditures; a $274 interim rate hike that would take effect at the start of 2004; and restoration of a fuel adjustment mechanism. The final order is due in the first half of 2004. Any rate changes would take effect for small commercial/industrial customers and residential customers only after rate caps for these users expire at the end of 2004 and 2005, respectively.

MichCon Gas will also file a rate request, probably by the end of the third quarter. Because MichCon is earning only a single-digit return on equity, it appears to have a strong case for an increase.

Untimely DTE stock has lagged most utility issues lately. As a result, its yield is now about a percentage point above the industry average. That ought to provide reasonable compensation for investors to assume the risks associated with the synfuels business and the utilities' rate cases. Total-return potential to 2006-2008 is above average for the industry.

Paul E. Debbas, CFA *July 4, 2003*

(A) Diluted EPS. Excl. nonrecurring gains (losses): '95, (22¢); '96, (67¢); '01, 2¢; '03, [illegible] gain on disc. ops.: '03, 44¢. '01 EPS don't add due to change in shares. Next earnings report due late July. (B) Dividends historically paid in mid-Jan., Apr., July, and Oct. ■ Div'd reinvestment plan available. (C) Incl. intangibles: in '02: $4.9 bil., $29.43/sh. (D) In mill. (E) Rate base: Net original cost. Rate allowed on com. eq. (elec.) none specified; (gas) 11.6%; earned on avg. com. eq., '02: 13.9%. Regulatory Climate: Below Average

Company's Financial Strength B+
Stock's Price Stability 100
Price Growth Persistence 30
Earnings Predictability 55

Item 16, page 14

EMPIRE DISTRICT NYSE-EDE

RECENT PRICE 21.50 | P/E RATIO 13.4 (Trailing: 14.9; Median: 16.0) | RELATIVE P/E RATIO 0.80 | DIV'D YLD 6.0% | VALUE LINE 707

TIMELINESS 3 [illegible]
SAFETY 3 [illegible]
TECHNICAL 3 [illegible]
BETA [illegible]

High	24.8	24.8	20.5	19.8	19.5	[illegible]	26.1	26.8	30.8	26.6	22.0	22.2
Low	20.1	19.1	15.0	16.0	17.1	[illegible]	18.4	20.7	18.9	17.5	15.1	17.0

Target Price Range 2006 2007 2008

LEGENDS [illegible]

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	25	(+15%)	8%
Low	17	(-20%)	Nil

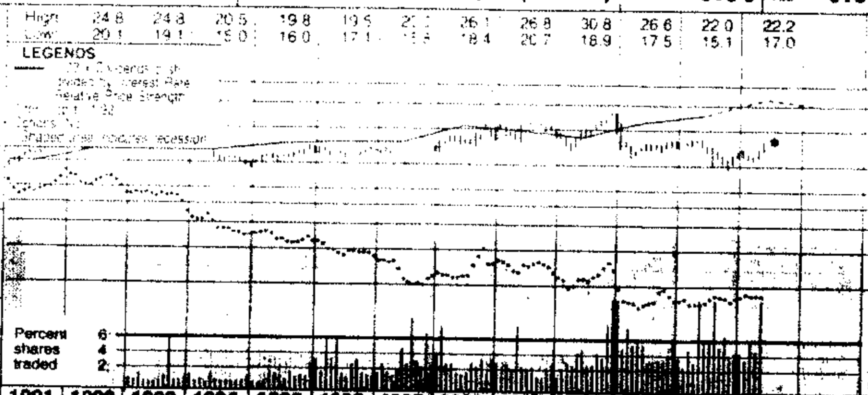
Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	1	0	0	0	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	36	26	29
to Sell	19	23	27
Hld's(000)	7064	6848	6320

Percent shares traded 6 4 2



% TOT. RETURN 5/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	13.4	-4.1
3 yr.	6.8	12.0
5 yr.	41.1	28.8

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
13.59	13.62	11.52	11.18	11.58	11.31	12.41	12.75	[illegible]	12.63	12.83	14.02	13.94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Revenues per sh	[illegible]
2.61	2.61	2.83	2.36	2.68	2.55	2.49	2.62	[illegible]	2.67	2.87	2.87	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	"Cash Flow" per sh	[illegible]
1.48	1.53	1.47	1.28	1.43	1.26	1.16	1.32	[illegible]	1.25	1.29	1.53	1.13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Earnings per sh A	[illegible]
1.02	1.06	1.13	1.16	1.22	1.26	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	[illegible]	[illegible]	Div'ds Decl'd per sh B	[illegible]
2.82	3.05	3.51	3.69	1.79	2.36	3.27	5.14	3.34	3.79	3.38	3.03	4.14	3.61	[illegible]	3.43	[illegible]	[illegible]	Cap'l Spending per sh	2.90
10.22	10.75	11.17	11.75	12.06	12.29	12.37	12.47	[illegible]	12.96	13.06	13.43	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Book Value per sh C	[illegible]
11.05	11.29	11.58	12.67	12.99	13.29	13.57	13.94	[illegible]	[illegible]	[illegible]	17.11	17.57	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Common Shs Outst'g D	[illegible]
10.1	9.7	9.9	11.6	12.8	18.0	19.6	13.3	14.9	14.8	13.9	14.0	21.7	17.7	[illegible]	[illegible]	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	[illegible]
.68	.81	.75	.86	.82	1.09	1.16	.87	1.00	.93	.80	.73	1.24	1.15	1.74	.88			Relative P/E Ratio	[illegible]
6.8%	7.2%	7.7%	7.9%	6.7%	5.6%	5.6%	7.3%	7.3%	7.0%	7.1%	6.0%	5.2%	5.4%	6.4%	6.6%			Avg Ann'l Div'd Yield	[illegible]

CAPITAL STRUCTURE as of 3/31/03
Total Debt $444.2 mill. Due in 5 Yrs $143.2 mill.
LT Debt $411.5 mill. LT Interest $31.2 mill.
Incl. $50 mill, 8.5% trust preferred securities.
(LT interest earned: 2.6x)
Pension Assets-12/02 $78.2 mill. Oblig. $87.5 mill.

Pfd Stock None

Common Stock 22,705,791 shs.
as of 5/1/03

MARKET CAP: $490 million (Small Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
168.4	177.8	192.8	200.0	215.3	238.9	242.2	260.0	264.3	305.9	[illegible]	[illegible]	Revenues ($mill)	[illegible]
15.9	18.7	19.8	22.0	23.8	28.3	22.2	28.6	10.4	25.5	[illegible]	[illegible]	Net Profit ($mill)	45.0
32.4%	35.2%	36.5%	34.8%	50.8%	36.4%	41.8%	32.7%	32.7%	34.9%	[illegible]	[illegible]	Income Tax Rate	[illegible]
1.4%	8.7%	11.3%	6.4%	5.1%	2.3%	5.4%	26.5%	34.7%	2.2%	[illegible]	[illegible]	AFUDC % to Net Profit	2.0%
48.5%	47.2%	48.3%	47.2%	43.6%	48.4%	59.6%	57.8%	57.2%	56.5%	[illegible]	[illegible]	Long-Term Debt Ratio	50.0%
49.2%	44.4%	45.9%	45.8%	48.9%	45.2%	40.4%	42.4%	42.8%	44.5%	[illegible]	47.5%	Common Equity Ratio	50.0%
341.0	391.7	420.7	465.6	448.3	508.5	580.0	585.8	626.9	740.3	[illegible]	[illegible]	Total Capital ($mill)	[illegible]
393.6	446.8	475.7	515.2	547.0	572.2	616.9	720.3	750.5	794.1	[illegible]	815	Net Plant ($mill)	825
6.6%	6.7%	6.5%	6.3%	7.2%	7.3%	5.5%	6.5%	4.0%	5.4%	7.0%	7.0%	Return on Total Cap'l	7.5%
9.1%	9.5%	8.8%	9.0%	9.4%	10.8%	9.5%	9.8%	3.9%	7.8%	10.5%	10.5%	Return on Shr. Equity	11.0%
9.3%	10.4%	9.0%	9.2%	9.8%	11.3%	8.8%	9.8%	3.9%	7.8%	10.5%	10.5%	Return on Com Equity E	11.0%
NMF	.4%	NMF	NMF	.1%	1.8%	NMF	.5%	NMF	NMF	2.0%	2.0%	Retained to Com Eq	3.5%
110%	96%	108%	104%	98%	85%	107%	95%	NMF	109%	81%	80%	All Div'ds to Net Prof	68%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+6.5	+1.3	+1.6
Avg. Indust. Use (MWH)	2942	2982	2944
Avg. Indust. Revs. per KWH (¢)	4.20	4.35	4.56
Capacity at Peak (Mw)	1165	1169	1166
Peak Load, Summer (Mw)	993	1001	987
Annual Load Factor (%)	55.1	54.8	56.9
% Change Customers (avg.)	+1.6	+1.7	+1.3
Fixed Charge Cov. (%)	204	197	222

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	[illegible]	[illegible]	[illegible]
"Cash Flow"	[illegible]	[illegible]	[illegible]
Earnings	-2.5%	-3.5%	[illegible]
Dividends	.5%		[illegible]
Book Value	1.5%	1.8%	3.5%

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	54.8	57.5	86.2	[illegible]	260.0
2001	60.8	58.4	83.3	[illegible]	264.3
2002	65.3	68.9	99.8	[illegible]	305.9
2003	76.9	73.1	100	75.0	325
2004	78.0	75.0	105	80.0	330

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.14	.21	.82	.18	1.35
2001	.13	.04	.42	.01	.59
2002	d.03	.19	.82	.16	1.19
2003	.27	.25	.85	.23	1.60
2004	.20	.27	.88	.25	1.60

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.32	.32	.32	.32	1.28
2000	.32	.32	.32	.32	1.28
2001	.32	.32	.32	.32	1.28
2002	.32	.32	.32	.32	1.28
2003	.32	.32			

BUSINESS: The Empire District Electric Company supplies electricity (97% of revenues) to 154,000 customers in a 10,000 sq. mi. area in Missouri (88% of '02 retail-electric revs.), Kansas (6%), Oklahoma (3%), & Arkansas (3%). Supplies water service (less than 1%). Has various nonregulated ops. (3%). Electric rev. breakdown: '02: resid., 41%; comm'l, 29%; ind'l, 18%; other, 12%. Service area is mainly rural. Generating sources, '02: coal, 38%; oil & gas, 17%; hydro, 1%; purchased, 44%. Fuel costs: 37% of revs. '02 reported deprec. rate: [illegible]. Has about 800 employees. 25,000 shareholders. [illegible] President & CEO: [illegible]. [illegible] P.O. Box 127, Joplin, MO [illegible]

[illegible] requested a rate increase of slightly under $1 million (13%) from the Oklahoma Corporation Commission. An order is expected in early September. EDE stock is ranked 3 (Average) for Timeliness.

The company is evaluating the need for additional rate relief in Missouri and Kansas. It completed the addition of 50 megawatts of peaking capacity in the second quarter. Also, certain expenses are rising, such as natural gas costs, although EDE has hedged 79% and 60% of its expected gas usage in 2003 and 2004, respectively. (There is no fuel adjustment clause in Missouri.) Due to rate moratoriums, however, the utility may not file a rate ap- [illegible] Kansas in [illegible] forecasts, so there is some upside to our estimate if EDE winds up filing a case.

This stock's primary attraction is its lofty dividend yield. At the current quotation, it is about two percentage points above the industry average. The fact that EDE is likely to cover the dividend this year enhances the security of the payout. On the down side, although we expect decent earnings growth to 2006-2008, we project no dividend increase over that time. Thus, this equity's 3- to 5-year total return potential is below the industry average.

Paul E. Debbas, CFA *July 4, 2003*

(A) Excl. accounting gain: '90, 28¢. '00, '01 EPS don't add due to rounding; '02 due to change in shares outstanding. Next earnings report due late July. (B) Dividends historically paid in mid-March, June, Sept., and Dec. ■ Div'd reinvestment plan available (3% discount). (C) Incl. deferred charges. In '02: $42.5 mill., $1.88/sh. (D) In mill., adj. for stock split. (E) Rate base: Deprec. original cost. Rate allowed on com. eq. in '02 (MO): none specified; earned on avg. com. eq., '02: 7.8%. Regulatory Climate: Average.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	25
Earnings Predictability	50

Item 16, page 15

FPL GROUP, INC. NYSE-FPL

RECENT PRICE	62.00	P/E RATIO	12.6 (Trailing 15.9, Median 13.0)	RELATIVE P/E RATIO	0.72	DIV'D YLD	4.0%	VALUE LINE	165

TIMELINESS 4 Lowered [illegible]

SAFETY 1 Raised [illegible]

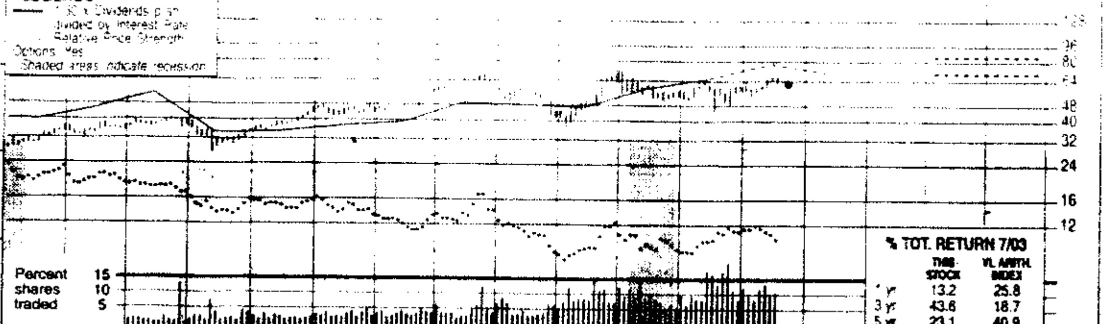
TECHNICAL 3 Lowered [illegible]

BETA [illegible]

High	28.4	41.0	39.1	46.5	48.[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	71.6	65.3	68.1
Low	32.0	35.5	27.4	34.[illegible]	41.[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	45.0	53.6

Target Price Range 2006 2007 2008

LEGENDS
— 1.30 x Dividends p sh divided by Interest Rate
···· Relative Price Strength
Options: Yes
Shaded areas indicate recession



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	85	(+35%)	11%
Low	70	(+15%)	7%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	1	1	1	0	0
Options	0	0	0	0	0	0	0	0	1
to Sell	0	0	0	0	0	0	0	0	1

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	242	261	241
to Sell	160	169	183
Hld's(000)	116161	114592	114919

Percent shares traded 15 10 5

% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	13.2	25.8
3 yr.	43.6	18.7
5 yr.	23.1	40.9

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
34.14	44.64	46.35	39.05	30.74	28.41	27.97	29.07	30.28	33.02	35.03	36.86	36.06	40.29	48.19	45.48	50.40	52.10	Revenues per sh A	52.00
6.93	7.78	8.76	6.08	5.56	5.59	5.85	6.45	7.97	8.42	9.23	10.78	9.73	9.88	10.03	9.01	9.35	9.70	"Cash Flow" per sh	10.80
3.10	3.10	3.12	2.65	2.65	2.65	2.75	2.91	3.16	3.33	3.57	3.85	4.07	4.14	4.62	4.02	4.90	5.10	Earnings per sh A B	5.70
2.10	2.18	2.26	2.34	2.39	2.43	2.47	1.88	1.76	1.84	1.92	2.00	2.08	2.16	2.24	2.32	2.40	2.48	Div'd Decl'd per sh C■	2.72
5.41	5.11	6.44	6.45	7.01	6.95	6.56	4.07	3.63	2.67	3.03	3.41	4.82	7.39	6.56	6.87	7.15	7.55	Cap'l Spending per sh	4.40
23.82	24.90	25.89	19.63	19.64	20.99	21.57	22.50	23.78	25.12	26.65	28.37	30.07	31.82	34.20	34.96	38.25	41.05	Book Value per sh D	52.20
130.03	131.12	133.34	161.07	170.76	182.79	190.07	186.57	184.69	182.82	181.82	180.71	178.55	175.77	175.85	182.76	190.40	192.00	Common Shs Outst'g F	215.40
10.0	9.8	10.2	11.5	12.0	13.3	13.9	11.3	12.3	13.5	13.5	16.2	13.0	12.8	12.5	14.2	Bold figures are		Avg Ann'l P/E Ratio	13.5
.67	.81	.77	.85	.77	.81	.82	.74	.82	.85	.78	.84	.74	.83	.64	.77	Value Line		Relative P/E Ratio	.90
6.8%	7.2%	7.1%	7.7%	7.5%	6.9%	6.4%	5.7%	4.5%	4.1%	4.0%	3.2%	3.9%	4.1%	3.9%	4.1%	estimates		Avg Ann'l Div'd Yield	3.5%

CAPITAL STRUCTURE as of 6/30/03
Total Debt $8836 mill. Due in 5 Yrs $4656 mill.
LT Debt $6765 mill. LT Interest $227 mill.
(LT interest earned: 4.1x)
Leases Uncapitalized None

Pension Assets-12/02 $2.4 bill. **Oblig.** $1.4 bill.
Pfd Stock $226 mill. **Pfd Div'd** $15 mill.
2,262,500 shs. 4.32% to 7.40%, all $100 par, cum., and callable from 101 to 103.52 per sh. Sinking fund began 4/1/80.
Common Stock 183,632,677 shs. as of 7/31/03
MARKET CAP: $11.4 billion (Large Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
5316.3	5422.7	5592.5	6036.8	6369.0	6661.0	6438.0	7082.0	8475.0	8311.0	9600	10000	Revenues ($mill)	11200
556.4	518.7	598.7	603.2	637.0	679.0	712.0	719.0	796.0	710.0	935	990	Net Profit ($mill)	1240
35.3%	37.2%	35.5%	32.8%	32.3%	29.1%	31.2%	31.8%	32.3%	25.6%	26.0%	26.0%	Income Tax Rate	26.0%
11.9%	4.6%	2.5%	--	--	--	--	--	--	4.0%	4.0%	4.0%	AFUDC % to Net Profit	3.0%
46.4%	46.1%	41.6%	39.0%	36.8%	30.5%	38.3%	40.6%	43.8%	46.7%	47.5%	47.5%	Long-Term Debt Ratio	40.5%
47.3%	47.7%	54.2%	56.9%	60.4%	66.6%	59.2%	57.1%	54.2%	51.5%	51.0%	51.0%	Common Equity Ratio	58.5%
8669.3	8792.6	8108.7	8068.0	8020.0	7699.0	9074.0	9795.0	11099	12406	14295	15395	Total Capital ($mill)	19260
10289	10203	9652.0	9363.0	9354.0	8555.0	9264.0	9934.0	11682	14304	14815	15375	Net Plant ($mill)	15400
8.1%	7.4%	9.0%	9.0%	9.5%	10.0%	9.0%	8.6%	8.5%	6.6%	8.0%	7.5%	Return on Total Cap'l	7.5%
12.0%	10.9%	12.6%	12.3%	12.6%	12.7%	12.7%	12.4%	12.8%	10.7%	12.5%	12.0%	Return on Shr. Equity	11.0%
12.5%	11.4%	12.6%	12.6%	12.8%	13.0%	13.0%	12.6%	13.0%	10.9%	12.5%	12.5%	Return on Com Equity E	11.0%
1.3%	3.4%	5.6%	5.6%	5.9%	6.2%	6.6%	6.3%	7.0%	4.6%	6.5%	6.5%	Retained to Com Eq	5.5%
91%	72%	59%	67%	55%	53%	50%	51%	47%	58%	50%	49%	All Div'ds to Net Prof	48%

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+5.0	+4.9	+6.5
Avg. Indust. Use (MWH)	1938	1467	1126
Avg. Indust. Revs. per KWH (¢)	4.89	4.95	5.25
Capacity at Peak (Mw)	19069	18871	20938
Peak Load, Summer (Mw)	17808	18754	19219
Annual Load Factor (%)	63	63	62
% Change Customers (yr-end)	+2.3	+2.3	+2.4
Fixed Charge Cov. (%)	403	395	349

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	3.0%	6.5%	2.5%
"Cash Flow"	5.5%	2.5%	2.0%
Earnings	5.0%	5.0%	6.0%
Dividends	-.5%	4.0%	3.5%
Book Value	5.5%	6.0%	7.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	1468	1670	2087	1857	7082
2001	1941	2166	2529	1839	8475
2002	1771	2128	2353	2059	8311
2003	2173	2459	2650	2318	9600
2004	2275	2560	2750	2415	10000

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.72	1.20	1.84	.38	4.14
2001	.64	1.30	1.98	.70	4.62
2002	.98	1.46	.85	.73	4.02
2003	.99	1.34	1.80	.77	4.90
2004	1.00	1.45	1.85	.80	5.10

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.52	.52	.52	.52	2.08
2000	.54	.54	.54	.54	2.16
2001	.56	.56	.56	.56	2.24
2002	.58	.58	.58	.58	2.32
2003	.60	.60			

BUSINESS: FPL Group, Inc. owns 100% of Florida Power & Light, which supplies electricity in a 27,650-square-mile area in eastern and southern Florida with a population of nearly eight million. Utility revenue breakdown in 2002: residential, 55%; commercial, 36%; industrial, 3%; other, 6%. Energy Mix: oil, 16%; gas, 32%; nuclear, 24%; purchased power, 22%; coal, 6%. Fuel costs: 45% of revenues. 2002 depreciation rate: 4.4%. Sold Colonial Penn Group 8/91. Nonutility operations accounted for about 11% of total 2002 revenues. Has 11,577 employees, 37,283 shareholders. Chairman & Chief Executive Officer: Lewis Hay. Incorporated: Florida. Address: 700 Universe Boulevard, June Beach, FL 33408. Tel.: 561-694-4697. Internet: www.investor.fplgroup.com.

FPL Group's [illegible] energy subsidiary [illegible] [illegible] nuclear [illegible] megawatt [illegible] portfolio [illegible] mainly in the Midwest and [illegible] the Pacific Coast, makes it the largest owner of this clean electricity source in [illegible]. Current plans call for completion of [illegible] 886 mw of wind generation by the end of 2003. Though the cost of this energy is higher than that of fossil fuel, the difference is largely offset by federal tax credits and economies of scale. The company's entire wind-powered output has been sold under long-term contracts. FPL Energy has also leased a 535-mw gas-fired [illegible] in Rhode Island and bought 88% of the Seabrook 1 nuclear plant. By yearend, it expects to add 2,800 mw to its current capacity of 7,200 mw. All of this power will be sold in the wholesale market, free of commission oversight.
The regulated utility also continues to grow. To cover rising customer demand in one of the country's fastest-growing areas, this subsidiary built a 543-mw peaking [illegible] Fort Myers last year and [illegible] capacity of its Sanford [illegible] station from 772 mw to 1,914 [illegible] 1,900 [illegible] two Florida counties [illegible]. The utility [illegible] solicited outside bids for construction of these plants, but will build them itself, since it can do so less expensively. Additional power will be added as the need arises.
We look for improved earnings in 2003. Though June-quarter results were hurt by mild weather, a full year of Seabrook 1's operation, additional wind capacity, and new regulated units on line point to solid returns for the full year. Thus, despite an increase in long-term debt and the issuance of common shares to cover the cost of new plants, we estimate 2003 earnings will rise by 22%, to $4.90 a share. Continued gains in customer demand suggest a further advance next year. For now, the stock is untimely.
Dividend growth prospects exceed those of the group. Moreover, the company is financially strong. But the stock's recent price largely reflects these positives, so total returns to 2006-2008 are only about average for a utility.
Arthur H. Medalie September [illegible], 2003

(A) Incl. Colonial Penn '87-'90. (B) Based on avg. shares. Excl. nonrec. (losses)/gains: '88, 32¢; '90, ($5.50); '91, ($1.10); '93, ($[illegible]); '00, (11¢); '02, ($1.28). Next egs. [illegible] Oct. (C) Div'ds [illegible] June, mid-Sept., and [illegible] Div'd reinvestment plan avail. (D) Incl. deferred [illegible] in '02: $5.25/sh. (E) Rate [illegible] equity in '96: 10.0%-12.0%; earned on '02 avg. [illegible] eq.: 11.2%. Reg.: Above Avg. (F) In millions.

Company's Financial Strength	A+
Stock's Price Stability	95
Price Growth Persistence	60
Earnings Predictability	85

Item 16, page 16

MGE ENERGY INC. NDQ-MGEE

RECENT PRICE 30.75 | P/E RATIO 17.1 (Trailing: 19.5; Median: 15.0) | RELATIVE P/E RATIO 1.02 | DIV'D YLD 4.4% | VALUE LINE 710

TIMELINESS 5 Lowered 6/20/03
SAFETY 1 New 1/3/03
TECHNICAL 3 Lowered 7/4/03
BETA .55 (1.00 = Market)

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(Nil)	4%
Low	25	(-20%)	Nil

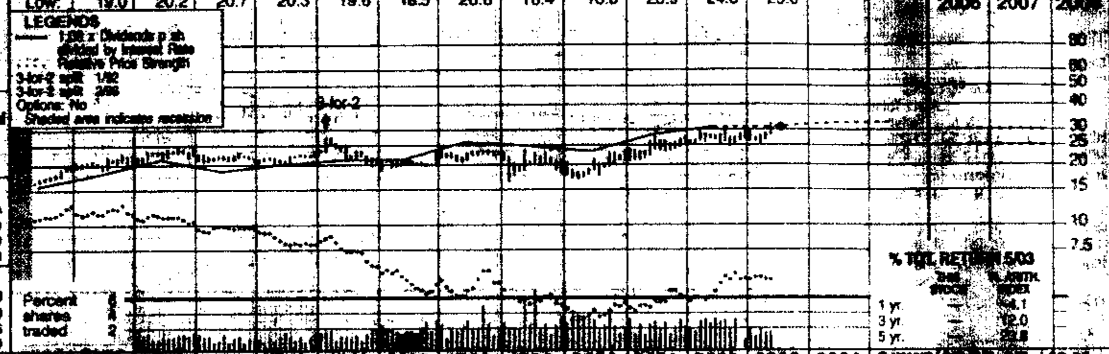
Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	23	31	29
to Sell	29	16	26
Hld's(000)	3755	4118	3830

High:	23.0	24.5	23.3	23.3	27.5	23.8	23.8	23.9	23.7	27.8	30.1	33.7
Low:	19.0	20.2	20.7	20.3	19.6	18.5	20.6	16.4	16.8	20.9	24.6	25.0



1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
13.25	14.02	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	16.45	15.53	[illegible]	[illegible]	19.55	20.00	22.00	22.30	Revenues per sh	[illegible]
[illegible]	2.91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.26	[illegible]	[illegible]	[illegible]	3.78	3.37	3.80	3.90	"Cash Flow" per sh	[illegible]
[illegible]	1.32	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.40	[illegible]	[illegible]	[illegible]	1.62	1.69	1.80	2.00	Earnings per sh	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.29	[illegible]	[illegible]	[illegible]	[illegible]	1.34	1.35	1.36	Div'd Decl'd per sh	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.35	[illegible]	[illegible]	[illegible]	[illegible]	4.51	6.00	5.50	Cap'l Spending per sh	[illegible]
[illegible]	10.01	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.25	[illegible]	[illegible]	[illegible]	[illegible]	13.10	13.70	15.00	Book Value per sh	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17.35	17.50	17.50	Common Shs Outst'g	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	16.0	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			Relative P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			Avg Ann'l Div'd Yield	[illegible]

CAPITAL STRUCTURE as of [illegible]
Total Debt $226.6 mill. [illegible]
LT Debt $192.2 mill. [illegible]
(LT interest earned: 4.3x) [illegible]

Leases, Uncapitalized Annual rentals [illegible]
Pension Assets-12/02 [illegible] Obligation $117.4 mill.

Pfd Stock None

Common Stock 17,760,153 shs.
as of 5/14/03
MARKET CAP: $550 million (Small Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	347.1	385	390	Revenues ($mill)	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	22.5	[illegible]	[illegible]	27.4	27.2	29.2	31.5	35.0	Net Profit ($mill)	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	37.5%	[illegible]	[illegible]	[illegible]	[illegible]	39.1%	39.0%	39.0%	Income Tax Rate	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	2%	[illegible]	1.8%	1.5%	1.2%	1.4%	1.4%	1.4%	AFUDC % to Net Profit	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	44.5%	[illegible]	42.2%	[illegible]	45.0%	45.0%	Long-Term Debt Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	52.2%	57.8%	54.2%	55.0%	55.0%	Common Equity Ratio	[illegible]
310.8	325.4	415.4	308.0	[illegible]	[illegible]	[illegible]	383.7	373.9	419.5	485	510	Total Capital ($mill)	[illegible]
[illegible]	[illegible]	[illegible]	312.2	[illegible]	[illegible]	[illegible]	342.8	401.2	460.3	505	510	Net Plant ($mill)	[illegible]
9.7%	9.3%	7.0%	5.9%	8.8%	8.0%	8.8%	8.8%	9.0%	7.0%	6.5%	7.0%	Return on Total Cap'l	[illegible]
13.0%	12.9%	12.4%	7.4%	12.4%	12.2%	12.8%	13.7%	12.6%	12.8%	12.0%	12.5%	Return on Shr. Equity	[illegible]
13.1%	13.0%	12.4%	7.4%	12.4%	12.2%	12.8%	13.7%	12.6%	12.8%	12.0%	12.5%	Return on Com Equity E	[illegible]
2.4%	2.4%	1.9%	NMF	1.0%	.7%	1.5%	2.9%	2.3%	2.7%	3.5%	4.0%	Retained to Com Eq	4.5%
82%	82%	85%	NMF	92%	94%	89%	79%	82%	80%	75%	68%	All Div'ds to Net Prof	[illegible]

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	+2.1	+2.5	-1.6
Avg. Indust. Use (MWH)	4203	[illegible]	[illegible]
Avg. Indust. Revs. per KWH (¢)	3.87	4.10	[illegible]
Capacity at Peak (Mw)	703	[illegible]	763
Peak Load, Summer (Mw)	604	[illegible]	699
Annual Load Factor (%)	58.1	[illegible]	[illegible]
% Change Customers (avg.)	+1.9	[illegible]	+1.0
Fixed Charge Cov. (%)	368	[illegible]	362

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	3.0%	[illegible]	[illegible]
"Cash Flow"	3.0%	[illegible]	[illegible]
Earnings	1.5%	[illegible]	[illegible]
Dividends	1.5%	[illegible]	[illegible]
Book Value	[illegible]	[illegible]	[illegible]

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	84.5	64.2	[illegible]	[illegible]	[illegible]
2001	122.0	70.3	[illegible]	[illegible]	[illegible]
2002	98.3	74.6	[illegible]	[illegible]	[illegible]
2003	128.5	[illegible]	[illegible]	[illegible]	[illegible]
2004	120	87.6	[illegible]	[illegible]	[illegible]

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.62	.15	.51	.39	1.67
2001	.57	.32	.36	.37	1.62
2002	.64	.26	.60	.19	1.69
2003	.53	.28	.61	[illegible]	1.80
2004	.57	.29	.62	[illegible]	2.00

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.326	.326	.328	.328	1.31
2000	.328	.328	.331	.331	1.32
2001	.331	.331	.333	.333	1.33
2002	.333	.333	.336	.336	1.34
2003	.336	.336			

BUSINESS: MGE Energy Inc. is a holding company for Madison Gas and Electric, which provides electric service to 130,000 customers in a 250-square-mile area of Dane County and gas service to 128,000 customers in 1,375 square miles in seven counties in Wisconsin. Electric revenue breakdown, '02: residential, 36%; commercial, 48%; industrial, 6%; public authorities, 7%; other, 3%. Generating sources, '02: coal, 56%; purchased power, 39%; gas, 4%; other, 1%. Fuel costs: 43% of revenues. '02 reported depreciation rate: electric, 3.4%; gas, 3.3%. Has 693 employees. 18,000 stockholders. Chairman, President & CEO: Gary J. Wolter. Inc.: Wisconsin. Address: 133 South Blair St., P.O. Box 1231, Madison, WI 53701-1231. Tel.: 608-252-7000. Internet: www.mge.com.

Higher fuel costs are hurting MGE Energy's results. Revenues within the company's electric utility operations increased 10.4%, year over year, in the March quarter, reflecting rate increases as well as higher electricity consumption per customer. That said, the cost of fuel needed to generate electricity jumped 24.8% while the total price paid for purchased power increased 69.2%. The company's reliance on natural gas-fired power plants at a time when the price of that fuel has spiked, is largely to blame. The coal-fired Columbia Energy Center plant has been out of service more often so far this year. In addition, MGE's generation mix includes more electricity bought from gas-fired plants since two new purchased power contracts took effect in May 2002. Going forward, MGE gets the full benefit from recent rate hikes, which should help offset the higher fuel costs: effective March 1, the Public Service Commission of Wisconsin granted MGE a 9.1% increase in electric rates and a 5.4% increase in gas rates. Still, we're lowering our 2003 earnings estimate to reflect higher fuel costs. Our target is now $1.80 a share, down from $1.95 in early April.

We look for modest profit growth out to 2006-2008. MGE's south-central Wisconsin service area boasts favorable demographics, which should support decent long-term operating performance; economic growth there is consistently higher than the national average. To keep pace with growing customer demand, MGE plans to add 300 megawatts of electric generating capacity over the next decade. A new cogeneration facility, capable of producing 150 megawatts of power, is planned. Assuming regulatory approval, it should be up and running on the University of Wisconsin campus by 2005.

MGE shares are ranked 5 (Lowest) for relative year-ahead price performance. They've had a strong run up in price over the past several years and subsequently carry one of the highest price-earnings ratio of any utility equity. MGE's yield, at 4.4%, is relatively attractive. Still, we thing investors stressing total return potential to 2006-2008 will find better opportunities elsewhere.

Nils C. Van Liew *July 4, 2003*

(A) Excl. nonrecurring loss '96, 42¢. Next earnings report due mid-Aug. (B) Dividends historically paid in mid-March, June, September, December. ■ Dividend reinvestment plan available. (C) Incl. deferred charges. In '02: $27.1 mill., $1.59/sh. (D) In millions. (E) Rate allowed on common equity in '02: 12.3%; earned on average common equity, '02: 13.0%. Regulatory Climate: Above Average.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	20
Earnings Predictability	70

Item 16, page 17

PROGRESS ENERGY

RECENT PRICE 40.87 | P/E RATIO 11.1 | RELATIVE P/E RATIO 0.63 | DIV'D YLD 5.7% | VALUE LINE | 172

TIMELINESS 4 | SAFETY 2 | TECHNICAL 4

BETA .55 (1.00 = Market)

2006-08 PROJECTIONS

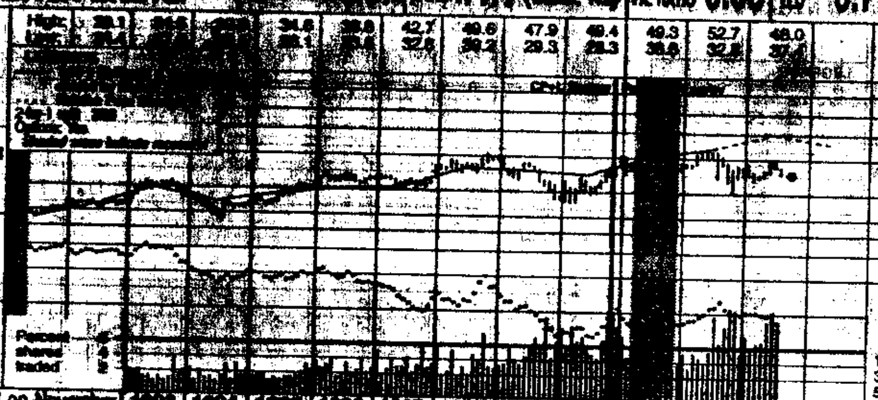
	Price	Gain	Ann'l Total Return
High	60	(+50%)	15%
Low	45	(+10%)	8%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	2	0	1	1	0	1	1	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	3	2	2	0	4	2

Institutional Decisions

	[illegible]	[illegible]	[illegible]
to Buy	188	202	194
to Sell	150	127	135
Hld's(000)	123810	129768	134009



	THIS STOCK	VL ARITH. INDEX
1 yr.	-8.0	25.8
3 yr.	41.3	18.7
5 yr.	—	40.9

Progress Energy was formed on November 30, 2000 through the merger of CP&L Energy and Florida Progress. Florida Progress common shareholders exchanged each share held for $54 in cash and/or CP&L common stock. They also received one Contingent Value Obligation for each share of Florida Progress stock, entitling them to payments in the event that four synthetic fuel plants achieve certain economic results from 2001 to 2007. Data prior to 2000 are for CP&L only and are not comparable with Progress Energy data.

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
18.01	18.39	19.77	19.76	19.88	20.68	21.04	19.89	38.69	34.18	[illegible]	35.50	Revenues per sh	37.10
6.09	4.97	5.32	5.47	6.26	6.44	6.06	5.37	8.14	7.02	[illegible]	7.40	"Cash Flow" per sh	8.05
[illegible]	[illegible]	[illegible]	2.60	2.66	2.75	2.55	2.34	3.43	3.84	3.70	3.80	Earnings per sh A	[illegible]
[illegible]	1.72	[illegible]	1.84	1.90	1.98	2.02	2.08	2.14	2.18	[illegible]	2.32	Div'd Decl'd per sh B	[illegible]
[illegible]	[illegible]	[illegible]	2.44	2.57	2.80	4.32	4.61	[illegible]	5.05	[illegible]	5.15	Cap'l Spending per sh	[illegible]
[illegible]	[illegible]	[illegible]	17.77	18.63	19.40	21.38	26.32	27.46	28.73	[illegible]	32.05	Book Value per sh C	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	151.38	151.34	150.80	206.09	218.73	232.43	[illegible]	242.00	Common Shs Outst'g E	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	15.3	12.7	11.3	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	.79	.83	.87	.99	.64	.65			Relative P/E Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	5.5%	4.5%	5.2%	5.8%	5.0%	[illegible]			Avg Ann'l Div'd Yield	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3130.1	3357.6	4118.9	8461.5	7945.0	[illegible]	8600	Revenues ($mill)	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	399.2	382.3	399.9	695.1	815.2	[illegible]	930	Net Profit ($mill)	[illegible]
[illegible]	[illegible]	[illegible]	36.9%	37.9%	38.2%	40.3%	35.4%	--	35.0%	[illegible]	35.0%	Income Tax Rate	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	1.3%	1.7%	3.0%	5.8%	2.8%	1.0%	[illegible]	2.0%	AFUDC % to Net Profit	[illegible]
48.9%	[illegible]	[illegible]	47.1%	45.8%	46.5%	46.8%	51.8%	60.9%	59.0%	[illegible]	54.0%	Long-Term Debt Ratio	[illegible]
49.1%	49.2%	[illegible]	50.2%	53.2%	52.4%	52.5%	47.6%	38.5%	40.4%	48.5%	45.0%	Common Equity Ratio	40.0%
5900.0	5200.6	5320.9	5859.9	5293.8	5623.1	6500.6	11407	15580	16517	[illegible]	17300	Total Capital ($mill)	18700
8432.2	6949.5	6328.5	6389.9	6293.5	6299.5	6764.8	10437	10915	10656	10985	11275	Net Plant ($mill)	11500
8.8%	7.7%	8.8%	8.9%	8.9%	8.6%	7.3%	4.3%	6.4%	6.8%	7.0%	7.0%	Return on Total Cap'l	7.0%
13.2%	11.5%	13.7%	13.8%	13.5%	13.3%	11.0%	6.7%	11.4%	12.0%	12.0%	11.5%	Return on Shr. Equity	11.0%
13.6%	11.7%	14.1%	14.2%	13.6%	13.4%	11.1%	6.7%	11.5%	12.1%	12.0%	12.0%	Return on Com Equity D	11.0%
3.6%	1.9%	4.1%	4.5%	3.9%	4.0%	2.5%	NMF	4.3%	5.0%	4.5%	4.5%	Retained to Com Eq	4.5%
74%	85%	72%	69%	72%	71%	78%	101%	63%	59%	61%	61%	All Div'ds to Net Prof	60%

CAPITAL STRUCTURE as of [illegible]
Total Debt $10478.1 mill. Due in 5 Yrs $3912.2 mill.
LT Debt $9587.9 mill. LT Interest $600.1 mill.
(LT interest earned: 1.8x)
Pension Assets-12/02 $1.36 bill. Oblig. $1.69 bill.
Pfd Stock $92.8 mill. Pfd Div'd $4.5 mill.
921,814 shs. $4.00 to $5.44 cum. no-par. callable from $101 to $110 per sh. Sinking funds began in 1984 and 1986, respectively.
Common Stock 240,800,322 shs. as of 4/30/03
MARKET CAP: $9.7 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2000	2001	2002
% Change Retail Sales (KWH)	NMF	-.4	+2.8
Avg. Indust. Use (MWH)	1962	2306	2372
Avg. Indust. Revs. per KWH (¢)	N.A.	N.A.	5.58
Capacity at Peak (Mw)	21623	22589	22598
Peak Load, Summer (Mw)	19839	19166	20365
Annual Load Factor (%)	60.2	57.7	57.3
% Change Customers (yr-end)	NMF	+2.5	+2.2
Fixed Charge Cov. (%)	209	196	191

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	6.5%	9.5%	NMF
"Cash Flow"	3.5%	4.0%	NMF
Earnings	3.5%	4.5%	NMF
Dividends	3.5%	3.0%	NMF
Book Value	6.5%	9.0%	NMF

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	877.6	892.3	1084	1265	4118.9
2001	1908	2315	2330	1907	8461.5
2002	1787	1959	2277	1922	7945.0
2003	2016	2013	2350	2021	8400
2004	2060	2080	2390	2070	8600

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.56	.70	1.15	d.07	2.34
2001	.77	.56	1.77	.33	3.43
2002	.77	.83	1.53	.71	3.84
2003	.89	.64	1.60	.57	3.70
2004	.83	.77	1.60	.60	3.80

Calendar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2001	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2002	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUSINESS: Progress Energy, parent of CP&L Energy and Florida Progress, supplies electricity to portions of North Carolina, South Carolina, and Florida. Other operations include a fiber-optic network, Internet services, coal mining and transportation, and financial services. Elect. revs.: resid., 52%; commer., 28%; indust., 16%; other, 4%. Power costs: 38% of revs; labor costs: 14%. Fuel sources (KWH): gas/oil/coal, 63%; nuclear, 36%; hydro, 1%. Has 15,300 employ., 72,380 comm. stockholders. '02 deprec. rate: 3.6%. Est'd plant age: 10 years. Chairman & CEO: William Cavanaugh 3rd. Pres.: Robert B. McGehee. Incorp.: North Carolina. Address: 411 Fayetteville Street, Raleigh, North Carolina 27602. Telep.: 1-800-662-7232. Internet: www.progress-energy.com.

Progress Energy's synthetic fuel tax credits may be at risk. The Florida Progress subsidiary invests in four fuel plants that combine a petroleum-based substance with coal waste to produce synthetic fuel. The sales qualify for federal tax credits, which were designed to reduce U.S. dependence on imported oil by promoting alternative energy sources. The company expects to sell 12 million tons of this fuel in 2003. That would add $0.75-$0.80 a share to corporate net. But the IRS recently announced that it would withdraw the credits if the process used to convert coal into synfuel fails to meet requirements. Management is confident that its conversion procedures comply with IRS standards, but it awaits an IRS field auditor's findings. The loss of tax credits would have a serious adverse impact on PGN's prospects.

The company is reducing investments in unproductive assets. It recently sold the North Carolina Natural Gas subsidiary for $400 million. This enterprise never lived up to expectations, and PGN took a charge of $20 million against the asset in 2002. Also up for sale is the affordable housing investment, which generates modest earnings of $0.02-$0.05 a share yearly but does not fit in with corporate strategy. On the block in 2003 is the leasing operation of the rail service business. The balance of this operation may be sold next year. Cash proceeds from these sales would be applied to debt reduction.

Earnings may decline this year. Positives include a full year of the April, 2002 acquisition of Westchester Natural Gas as well as higher wholesale sales, resulting from the output of new plants. But lower rates in Florida, additional shares outstanding, and higher pension costs will more than offset these pluses. Overall, we estimate a 4% reduction in 2003 earnings, to $3.70 a share. An expected 2% gain in retail sales points to an earnings uptick next year. The stock is ranked 4 (below Average) for Timeliness.

Our earnings and dividend projections assume retention of synthetic fuel tax credits. But because of the uncertainty and the large amounts involved, investors might do well to stay on the sidelines until this matter is clarified.

Arthur H. Medalie *September 5, 2003*

(B) [illegible] reinvestment plan available. (C) Incl. [illegible] charges in '02: $23.63/sh. (D) Rate Base: [illegible] cost. Rate allowed on common equity in '88 in N.C.: 12.75%; in '88 in S.C.: 12.75%; in '02 in Fla.: rev. sharing incentive plan. Earn. on '02 avg. com. eq.: 13.2%. Regul. Clim.: Avg. (E) In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	90
Price Growth Persistence	NMF
Earnings Predictability	NMF

Item 16, page 18

SOUTHERN CO. NYSE-SO

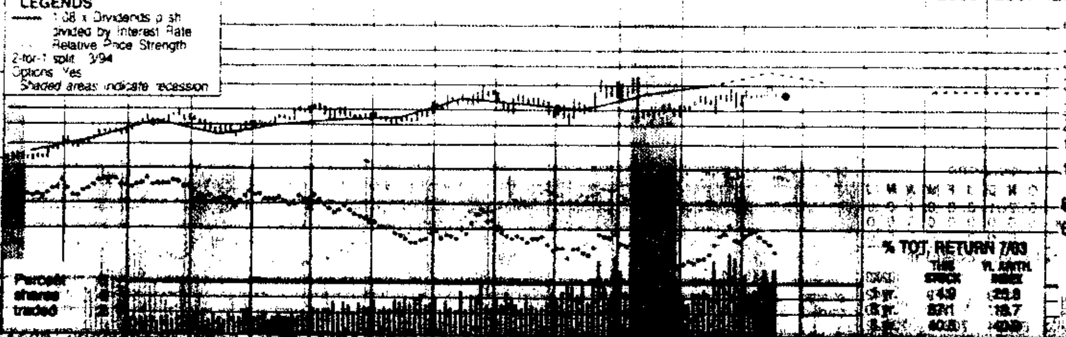
RECENT PRICE 28.50 | P/E RATIO 15.7 (Trailing: 14.5, Median: 14.0) | RELATIVE P/E RATIO 0.90 | DIV'D YLD 4.9% | VALUE LINE 175

TIMELINESS 3 New 9/5/03
SAFETY 2 Lowered 12/8/00
TECHNICAL 3 Raised 9/5/03
BETA .65 (1.00 = Market)

High:	19.5	23.6	22.1	25.0	25.9	26.3	31.6	29.6	35.0	35.7	31.1	32.0
Low:	15.2	18.5	17.3	19.4	21.1	19.9	23.9	22.1	20.4	20.9	23.2	27.0

Target Price Range 2006 2007 2008

LEGENDS
1.08 x Dividends p sh divided by Interest Rate
Relative Price Strength
2-for-1 split 3/94
Options: Yes
Shaded areas indicate recession



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+40%)	13%
Low	30	(+5%)	6%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	1	0	0	1	0	[illegible]
Options	0	0	0	0	1	2	0	8	2
to Sell	0	0	0	0	1	2	0	5	2

Institutional Decisions

	3Q2002	4Q2002	1Q2003
to Buy	251	257	254
to Sell	188	188	201
Hld's(000)	248821	248089	260825

Percent shares traded

% TOT. RETURN 7/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	4.9	23.8
3 yr.	[illegible]	18.7
5 yr.	40.5	[illegible]

In September 2000, Southern conducted an initial public offering in its global independent power marketing and trading subsidiary, called Mirant. Issuing 66.7 million shares, the company and Mirant shared $1.8 billion in gross proceeds. In April 2001, management spun off the remaining 80.3% stake in Mirant to Southern investors; 0.4 of a common share in the subsidiary was distributed for each common share in the parent held. A full-page report on Mirant Corp. can be found in Issue 6.

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
13.21	12.63	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Revenues per sh	[illegible]
3.13	3.22	3.52	3.64	3.90	4.25	4.17	[illegible]	[illegible]	3.45	[illegible]	[illegible]	"Cash Flow" per sh	[illegible]
1.57	1.52	1.66	1.68	1.58	1.73	1.83	2.01	1.61	1.85	[illegible]	[illegible]	Earnings per sh	2.35
1.14	1.18	1.22	1.26	1.30	1.34	1.34	1.34	[illegible]	1.36	[illegible]	1.42	Div'ds Decl'd per sh	1.58
2.24	2.34	[illegible]	1.82	2.71	[illegible]	[illegible]	3.28	3.74	3.70	[illegible]	[illegible]	Cap'l Spending per sh	3.00
[illegible]	12.46	[illegible]	[illegible]	14.06	14.82	[illegible]	[illegible]	[illegible]	12.15	[illegible]	[illegible]	Book Value per sh	16.15
[illegible]	657.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	714.90	[illegible]	[illegible]	Common Shs Outst'g	770.00
13.5	12.9	13.2	13.8	14.0	15.7	14.3	13.2	14.6	14.6	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	18.0
.80	.85	.86	.86	.81	.82	.82	.86	.75	.80			Relative P/E Ratio	1.05
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.1%	5.0%	[illegible]	5.0%			Avg Ann'l Div'd Yield	4.2%
8489.0	8297.0	[illegible]	10358	[illegible]	11403	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Revenues ($mill)	[illegible]
1095.0	1078.0	[illegible]	[illegible]	[illegible]	1372.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Net Profit ($mill)	1975
38.2%	[illegible]	[illegible]	[illegible]	[illegible]	24.1%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Income Tax Rate	32.0%
2.0%	2.7%	[illegible]	[illegible]	1.6%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	AFUDC % to Net Profit	1.5%
45.1%	44.1%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	44.5%	44.0%	Long-Term Debt Ratio	43.5%
[illegible]	47.5%	[illegible]	[illegible]	[illegible]	42.9%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Common Equity Ratio	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Total Capital ($mill)	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Net Plant ($mill)	31775
[illegible]	7.9%	[illegible]	[illegible]	7.1%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.5%	Return on Total Cap'l	[illegible]
12.1%	11.2%	11.7%	[illegible]	10.5%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12.5%	13.0%	Return on Shr. Equity	14.0%
[illegible]	12.1%	[illegible]	[illegible]	11.2%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.5%	Return on Com Equity	[illegible]
[illegible]	2.7%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Retained to Com Eq	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	All Div'ds to Net Prof	[illegible]

CAPITAL STRUCTURE as of 6/30/03
Total Debt $11,668 mill. Due in 5 Yrs $4,900 mill.
LT Debt $9,526 mill. LT Interest $570 mill.
(LT interest earned: 4.7x)
Pension Assets-12/02 $4.6 bill. Oblig. $3.1 bill.
Pfd Stock $2,[illegible] mill. Pfd Div'd $[illegible] mill.
incl. 930,000 shs. [illegible], $100 par; 8 mill. shs. 5.2%-5.83%, $25 par, all cum. pfd. incl. $435 mill. 5.[illegible]%-7.00%, $[illegible] mill. 7.13%, $[illegible] mill. 7.2[illegible]%-8.19%, $640 mill. 4.75%-5.80%, $25 liq. val. pfd., all mand. redeem.
Common Stock 728,[illegible] shs. as of [illegible]
MARKET CAP: $[illegible] billion (Large Cap)

ELECTRIC OPERATING STATISTICS

Item 16, page 19

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CINERGY CORP. (NYSE)

Sector: Utilities Industry: Electric Utilities

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Risk Alert : CINERGY CORP.

Medium

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EPS Estimates

Earnings Per Share Estimates
In US Dollar

	# of Ests.	Mean Est.	High Est.	Low Est.	Std. Dev.	Proj-P/E
Quarter Ending 12/03	6	0.65	0.66	0.64	0.01	--
Quarter Ending 03/04	2	0.76	0.76	0.76	0.00	--
Year Ending 12/03	15	2.60	2.65	2.57	0.02	13.91
Year Ending 12/04	15	2.76	2.85	2.70	0.03	13.15
LT Growth Rate	9	4.11	5.00	2.00	0.93	--

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DTE ENERGY COMPANY (NYSE)

Sector: Utilities Industry: Electric Utilities

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Risk Alert : DTE ENERGY COMPANY

Medium

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EPS Estimates

Earnings Per Share Estimates
In US Dollar

	# of Ests.	Mean Est.	High Est.	Low Est.	Std. Dev.	Proj-P/E
Quarter Ending 09/03	6	0.54	0.66	0.46	0.07	--
Quarter Ending 12/03	1	1.15	1.15	1.15	--	--
Year Ending 12/03	10	3.21	3.84	3.05	0.23	11.53
Year Ending 12/04	10	3.54	3.93	3.20	0.27	10.45
LT Growth Rate	7	5.14	8.00	1.00	2.48	--

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FPL GROUP, INC. (NYSE)

Sector: Utilities Industry: Electric Utilities

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- $7 Trades, open w/$500

Risk Alert : FPL GROUP, INC.

Medium

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EPS Estimates

Earnings Per Share Estimates
In US Dollar

	# of Ests.	Mean Est.	High Est.	Low Est.	Std. Dev.	Proj-P/E
Quarter Ending 12/03	11	0.74	0.79	0.70	0.03	--
Quarter Ending 03/04	2	0.94	0.94	0.94	0.00	--
Year Ending 12/03	20	4.88	4.94	4.80	0.03	13.16
Year Ending 12/04	19	5.10	5.16	4.98	0.05	12.59
LT Growth Rate	14	4.62	7.00	-3.30	2.51	--

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MGE ENERGY, INC. (NASDAQ)

Sector: Utilities Industry: Electric Utilities

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Risk Alert : MGE ENERGY, INC.

Low

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THE SOUTHERN COMPANY (NYSE)

Sector: Utilities Industry: Electric Utilities

Risk Alert : THE SOUTHERN COMPANY

Low

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Earnings Per Share Estimates
In US Dollar

	# of Ests.	Mean Est.	High Est.	Low Est.	Std. Dev.	Proj-P/E
Quarter Ending 12/03	14	0.16	0.19	0.15	0.01	--
Quarter Ending 03/04	5	0.41	0.50	0.35	0.06	--
Year Ending 12/03	21	1.90	1.95	1.85	0.02	--
Year Ending 12/04	20	1.97	2.01	1.93	0.03	--
LT Growth Rate	15	4.41	6.00	-1.90	1.86	--

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CONSTELLATION ENERGY GROUP (NYSE)

Sector: Utilities Industry: Electric Utilities

Risk Alert : CONSTELLATION ENERGY GROUP

Low

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EPS Estimates

Earnings Per Share Estimates
In US Dollar

	# of Ests.	Mean Est.	High Est.	Low Est.	Std. Dev.	Proj-P/E
Quarter Ending 12/03	9	0.59	0.65	0.55	0.03	--
Quarter Ending 03/04	2	0.42	0.45	0.39	0.04	--
Year Ending 12/03	13	2.78	2.90	2.68	0.05	13.34
Year Ending 12/04	13	3.01	3.15	2.90	0.07	12.31
LT Growth Rate	7	6.57	10.00	4.00	1.99	--

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THE EMPIRE DISTRICT ELECTRIC COMPANY (NYSE)

Sector: Utilities Industry: Electric Utilities

Risk Alert : THE EMPIRE DISTRICT ELECTRIC COMPANY

Medium

EPS Estimates

Earnings Per Share Estimates
In US Dollar

	# of Ests.	Mean Est.	High Est.	Low Est.	Std. Dev.	Proj-P/E
Quarter Ending 12/03	3	0.20	0.21	0.18	0.02	--
Year Ending 12/03	4	1.40	1.51	1.35	0.08	15.33
Year Ending 12/04	4	1.41	1.50	1.30	0.08	15.28
LT Growth Rate	2	6.50	10.00	3.00	4.95	--

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PNM RESOURCES, INC. (NYSE)

Sector: Utilities Industry: Electric Utilities

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Risk Alert : PNM RESOURCES, INC.

Medium

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EPS Estimates

Earnings Per Share Estimates
In US Dollar

	# of Ests.	Mean Est.	High Est.	Low Est.	Std. Dev.	Proj-P/E
Quarter Ending 12/03	2	0.38	0.40	0.36	0.03	--
Quarter Ending 03/04	1	0.55	0.55	0.55	--	--
Year Ending 12/03	4	1.96	2.00	1.90	0.05	--
Year Ending 12/04	4	2.12	2.20	2.00	0.10	--
LT Growth Rate	1	5.00	5.00	5.00	--	--

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PROGRESS ENERGY, INC. (NYSE)

Sector: Utilities Industry: Electric Utilities

- 7 Stocks to Buy Now!
- $7 Trades, open w/$500

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Risk Alert : PROGRESS ENERGY, INC.

Medium

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Earnings Per Share Estimates
In US Dollar

	# of Ests.	Mean Est.	High Est.	Low Est.	Std. Dev.	Proj-P/E
Quarter Ending 12/03	10	0.76	0.81	0.70	0.03	--
Quarter Ending 03/04	2	0.78	0.78	0.78	0.00	--
Year Ending 12/03	17	3.54	3.70	3.49	0.06	12.15
Year Ending 12/04	16	3.73	3.87	3.65	0.07	11.52
LT Growth Rate	10	3.65	5.00	1.00	1.25	--

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EPS Estimates

How To Use The Earnings Estimates Report
Investors pore through vast amounts of information-raw data and ratios showing h items relate to one another-to arrive at investment decisions. Virtually all of this information relates to events that have happened in the past in connection with the company and its stock. Yet you buy stock based on expectations you have regardin will occur in the future; specifically, how much profit the company will earn in the fu The investor's dilemma is that the one thing they truly need to know, future earnin cannot be known at the time an investment decision is made. So investors study hi data to understand the dynamics that have affected the stock to date and to devel reasonable assumptions about the future.

Earnings Per Share Estimates
Diluted EPS

	# of Ests.	Mean Est.	High Est.	Low Est.	Std. Dev.
Quarter Ending 06/99	12	0.38	0.38	0.37	0.01
Quarter Ending 09/99	12	0.38	0.40	0.37	0.01
Year Ending 12/99	23	1.41	1.45	1.39	0.02
Year Ending 12/00	16	1.58	1.61	1.52	0.02
LT Growth Rate	18	13.58	22.70	10.00	2.98

Multex collects the predictions made by professional stock analysts and presents th the Earnings Estimates Table. This table, updated daily, provides EPS estimates fro experts for the current and forthcoming quarters and for this year and the next. Fo context, the high, low, and mean estimates are shown, as well as the standard dev and the projected P/E ratio.

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First Call Consensus Estimate Snapshot

CINERGY CORP. (CIN)
Industry: Electric

Last Updated: 25-SEP-2003

Current Period	Mean EPS	# of Brokers	Report Date	Year Ago EPS
Sept/2003 Q	0.76	6	23-Oct-2003	0.79
Dec/2003 FY	2.64	15	NA	2.68

P/E Ratio: 13.6
Consensus Recommendation: 2.6
Consensus Future 5-yr Growth Rate: 4.0%

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First Call Consensus Estimate Snapshot

DTE ENERGY CO (DTE)
Industry: Electric

Last Updated: 25-SEP-2003

Current Period	Mean EPS	# of Brokers	Report Date	Year Ago EPS
Sept/2003 Q	0.90	1	28-Oct-2003 (week of)	0.96
Dec/2003 FY	3.24	9	NA	3.83

P/E Ratio: 11.1
Consensus Recommendation: 2.9
Consensus Future 5-yr Growth Rate: 5.5%

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For Ticker Symbol... FPL **...Show Me** First Call Snapshot GO

First Call Consensus Estimate Snapshot

FPL GROUP (FPL)
Industry: Electric

Last Updated: 25-SEP-2003

Current Period	Mean EPS	# of Brokers	Report Date	Year Ago EPS
Sept/2003 Q	1.83	8	23-Oct-2003	1.79
Dec/2003 FY	4.88	19	NA	4.80

P/E Ratio: 12.6
Consensus Recommendation: 2.3
Consensus Future 5-yr Growth Rate: 5.0%

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For Ticker Symbol... SO **...Show Me** First Call Snapshot GO

First Call Consensus Estimate Snapshot

SOUTHERN CO. (SO)
Industry: Electric

Last Updated: 25-SEP-2003

Current Period	Mean EPS	# of Brokers	Report Date	Year Ago EPS
Sept/2003 Q	0.77	8	20-Oct-2003 (week of)	0.84
Dec/2003 FY	1.85	20	NA	1.86

P/E Ratio: 15.5
Consensus Recommendation: 3.2
Consensus Future 5-yr Growth Rate: 5.0%

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For Ticker Symbol... CEG **...Show Me** First Call Snapshot GO

First Call Consensus Estimate Snapshot

CONSTELLATION ENERGY GROUP (CEG)
Industry: Electric

Last Updated: 25-SEP-2003

Current Period	Mean EPS	# of Brokers	Report Date	Year Ago EPS
Sept/2003 Q	1.15	6	31-Oct-2003 (week of)	1.07
Dec/2003 FY	2.75	14	NA	2.52

P/E Ratio: 13.0
Consensus Recommendation: 2.6
Consensus Future 5-yr Growth Rate: 6.0%

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For Ticker Symbol... EDE **...Show Me** First Call Snapshot GO

First Call Consensus Estimate Snapshot

EMPIRE DISTRICT ELECTRIC CO. (EDE)
Industry: Electric

Last Updated: 25-SEP-2003

Current Period	Mean EPS	# of Brokers	Report Date	Year Ago EPS
Sept/2003 Q	0.89	3	21-Oct-2003 (week of)	0.82
Dec/2003 FY	1.47	4	NA	1.19

P/E Ratio: 14.9
Consensus Recommendation: 2.7
Consensus Future 5-yr Growth Rate: 3.0%

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For Ticker Symbol... PNM **...Show Me** First Call Snapshot GO

First Call Consensus Estimate Snapshot

PNM RESOURCES INC (PNM)
Industry: Electric

Last Updated: 25-SEP-2003

Current Period	Mean EPS	# of Brokers	Report Date	Year Ago EPS
Sept/2003 Q	0.65	1	29-Oct-2003 (week of)	0.59
Dec/2003 FY	1.97	4	NA	1.81

P/E Ratio: 14.2
Consensus Recommendation: 3.0
Consensus Future 5-yr Growth Rate: 5.0%

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For Ticker Symbol... PGN **...Show Me** First Call Snapshot GO

First Call Consensus Estimate Snapshot

PROGRESS ENERGY INC. (PGN)
Industry: Electric

Last Updated: 25-SEP-2003

Current Period	Mean EPS	# of Brokers	Report Date	Year Ago EPS
Sept/2003 Q	1.45	4	20-Oct-2003 (week of)	1.53
Dec/2003 FY	3.64	16	NA	3.81

P/E Ratio: 12.1
Consensus Recommendation: 2.6
Consensus Future 5-yr Growth Rate: 4.0%

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Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

17. Explain how the closing stock prices shown on Schedules 36 and 37 are "adjusted."

Answer:

The closing stock prices are adjusted for stock splits and stock dividends, so that it is a consistent series. For example suppose XYZ Company's stock had a 2 for 1 stock split effective June 15. On June 15 there would be twice as many shares outstanding. Assume that the prices on June 13, 14, 15, and 16 were $30.50, $30.80, $15.60, and $15.90 on those dates. The adjustment for June 13 would be $30.50/2; for June 14 it would be $30.80/2; on June 15 and 16 there would be no adjustment. The adjusted data series would be $15.25, $15.40, $15.60, and $15.90.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

18. In reference to Schedules 39-40, provide a computer disc showing all data and calculations underlying the calculation of internal rate of return. (All formulas should be reflected on this computer disc, including those for the calculation of the present value of the perpetuity and the calculation of the internal rate of return.)

Answer:

Enclosed is a computer disc showing the calculation for Schedule 39 and Schedule 40. The iterations for determining K were done by hand.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

19. In reference to Schedule 43, provide the relevant pages from each source used in deriving the forecasts and projections in items 2-7 on that schedule.

Answer:

The requested source documents are attached.

H.15 DAILY UPDATE: WEB RELEASE ONLY
SELECTED INTEREST RATES

For immediate release
October 31, 2003

Yields in percent per annum

Instruments	2003 Oct 27	2003 Oct 28	2003 Oct 29	2003 Oct 30
Federal funds (effective) 1 2 3	1.03	0.98	0.97	1.02
Commercial paper 3 4 5 6				
Nonfinancial				
1-month	1.02	1.02	1.03	1.02
2-month	1.03	1.02	1.03	1.02
3-month	1.09	1.08	1.05	1.05
Financial				
1-month	1.03	1.03	1.03	1.03
2-month	1.05	1.03	1.04	1.04
3-month	1.06	1.07	1.06	1.07
CDs (secondary market) 3 7				
1-month	1.05	1.06	1.06	1.06
3-month	1.10	1.11	1.10	1.10
6-month	1.15	1.17	1.14	1.15
Eurodollar deposits (London) 3 8				
1-month	1.05	1.05	1.04	1.05
3-month	1.09	1.10	1.10	1.10
6-month	1.14	1.15	1.13	1.15
Bank prime loan 2 3 9	4.00	4.00	4.00	4.00
Discount window primary credit 2 10	2.00	2.00	2.00	2.00
U.S. government securities				
Treasury bills (secondary market) 3 4				
4-week	0.93	0.96	0.96	0.95
3-month	0.96	0.94	0.94	0.94
6-month	1.03	1.01	1.02	1.02
Treasury constant maturities 11				
1-month	0.95	0.98	0.98	0.97
3-month	0.98	0.96	0.96	0.96
6-month	1.05	1.03	1.04	1.04
1-year	1.31	1.25	1.29	1.32
2-year	1.83	1.71	1.79	1.86
3-year	2.35	2.23	2.32	2.39
5-year	3.21	3.11	3.20	3.29
7-year	3.75	3.67	3.76	3.83
10-year	4.30	4.23	4.31	4.36 ←
20-year	5.19	5.14	5.21	5.25
Treasury long-term average (25 years and above) 12 13	5.23	5.19	5.25	5.28
Interest rate swaps 14				
1-year	1.48	1.50	1.44	1.49
2-year	2.15	2.22	2.10	2.21
3-year	2.75	2.81	2.70	2.82
4-year	3.22	3.27	3.17	3.32
5-year	3.60	3.65	3.56	3.72
7-year	4.16	4.19	4.12	4.27
10-year	4.68	4.70	4.66	4.79
30-year	5.42	5.43	5.42	5.52
Corporate bonds				
Moody's seasoned				
Aaa 15	5.68	5.63	5.70	5.74
Baa	6.69	6.64	6.70	6.72
State & local bonds 16				4.88
Conventional mortgages 17				

The Budget and Economic Outlook: An Update
August 2003
Section 7 of 8

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APPENDIX

C

CBO's Economic Projections for 2003 Through 2013

Year-by-year economic projections for 2003 through 2013 are shown in the accompanying tables (*by calendar year in Table C-1 and by fiscal year in Table C-2*). The Congressional Budget Office did not try to explicitly incorporate cyclical recessions and recoveries into its projections for years after 2004. Instead, the projected values shown here for 2005 through 2013 reflect CBO's assessment of average values for that period--which take into account potential ups and downs in the business cycle.

Table C-1.

CBO's Year-by-Year Forecast and Projections for Calendar Years 2003 Through 2013

	Actual	Forecast		Projected							
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Nominal GDP (Billions of dollars)	10,446	10,836	11,406	12,025	12,706	13,391	14,098	14,823	15,559	16,312	17,105	17,943
Nominal GDP (Percentage change)	3.6	3.7	5.3	5.4	5.7	5.4	5.3	5.1	5.0	4.8	4.9	4.9
Real GDP (Percentage change)	2.4	2.2	3.8	3.5	3.3	3.2	3.0	2.9	2.7	2.6	2.6	2.6
GDP Price Index (Percentage change)	1.1	1.5	1.4	1.8	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2
Consumer Price Index[a] (Percentage change)	1.6	2.3	1.9	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Employment Cost Index[b] (Percentage change)	3.3	3.0	3.2	3.2	3.2	3.3	3.4	3.4	3.4	3.4	3.4	3.4
Unemployment Rate (Percent)	5.8	6.2	6.2	5.7	5.4	5.3	5.2	5.2	5.2	5.2	5.2	5.2
Three-Month Treasury Bill Rate (Percent)	1.6	1.0	1.7	3.2	4.0	4.7	4.9	4.9	4.9	4.9	4.9	4.9
Ten-Year Treasury Note Rate (Percent)	4.6	4.0	4.6	5.5	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8

$\bar{X} = 5.725$

Item 19, page 3

Table 4. ECONOMIC ASSUMPTIONS [1]

(Calendar years; dollar amounts in billions)

	2002 Actual	Projections					
		2003	2004	2005	2006	2007	2008
Gross Domestic Product (GDP):							
Levels, dollar amounts in billions:							
Current dollars	10,446	10,863	11,405	11,972	12,563	13,183	13,837
Real, chained (1996) dollars	9,440	9,661	10,018	10,378	10,733	11,079	11,427
Chained price index (1996 = 100), annual average	110.7	112.4	113.8	115.3	117.0	119.0	121.0
Percent change, fourth quarter over fourth quarter:							
Current dollars	4.3	4.4	5.1	4.9	4.9	5.0	4.9
Real, chained (1996) dollars	2.9	2.8	3.7	3.5	3.3	3.2	3.1
Chained price index (1996 = 100)	1.3	1.5	1.3	1.4	1.6	1.7	1.8
Percent change, year over year:							
Current dollars	3.6	4.0	5.0	5.0	4.9	4.9	5.0
Real, chained (1996) dollars	2.4	2.3	3.7	3.6	3.4	3.2	3.1
Chained price index (1996 = 100)	1.1	1.6	1.2	1.3	1.5	1.7	1.8
Incomes, billions of current dollars:							
Corporate profits before tax	665	708	671	1,151	1,142	1,135	1,154
Wages and salaries	5,004	5,162	5,438	5,740	6,060	6,373	6,689
Other taxable income [2]	2,411	2,479	2,615	2,662	2,706	2,767	2,851
Consumer Price Index (all urban): [3]							
Level (1982–84 = 100), annual average	179.9	184.0	187.0	190.4	194.2	198.6	203.1
Percent change, fourth quarter over fourth quarter	2.2	1.9	1.8	1.9	2.1	2.3	2.3
Percent change, year over year	1.6	2.3	1.7	1.8	2.0	2.2	2.3
Unemployment rate, civilian, percent:							
Fourth quarter level	5.9	5.8	5.5	5.3	5.2	5.1	5.1
Annual average	5.8	5.9	5.6	5.4	5.2	5.1	5.1
Federal pay raises, January, percent:							
Military [4]	6.9	4.7	4	NA	NA	NA	NA
Civilian [5]	4.6	4.1	5	NA	NA	NA	NA
Interest rates, percent:							
91-day Treasury bills [6]	1.6	1.2	2.0	2.8	3.6	4.2	4.3
10-year Treasury notes	4.6	3.7	4.1	4.5	4.8	5.1	5.3

Avg 4.9

The economic assumptions for the Mid-Session Review, summarized in Table 4, differ from those used in the Administration's 2004 Budget in that they incorporate the fiscal, monetary, and economic developments discussed above.

During the second half of this year and into 2004 and 2005 growth is now projected to be somewhat stronger than anticipated in the February Budget, while inflation and interest rates are now projected to be lower. The unemployment rate is slightly higher in the near term, reflecting the higher current level.

Item 19, page 4

Value Line Forecast for the U.S. Economy

	ACTUAL					ESTIMATED				
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GROSS DOMESTIC PRODUCT AND ITS COMPONENTS (1996 CHAIN WEIGHTED $) BILLIONS OF DOLLARS										
Final Sales	8432	8794	9121	9258	9424	*9650*	*9996*	*10345*	*10708*	*11082*
Total Consumption	5684	5965	6224	6377	6576	*6760*	*7037*	*7269*	*7516*	*7779*
Nonresidential Fixed Investment	1136	1228	1324	1255	1183	*1202*	*1297*	*1414*	*1534*	*1657*
Construction	262	259	276	271	226	*213*	*219*	*241*	*260*	*278*
Equipment & Software	875	976	1056	988	971	*1009*	*1098*	*1197*	*1304*	*1409*
Residential Fixed Investment	345	368	372	374	388	*409*	*412*	*416*	*425*	*437*
Exports	1002	1036	1137	1076	1059	*1063*	*1144*	*1269*	*1393*	*1506*
Imports	1224	1357	1536	1492	1547	*1609*	*1725*	*1851*	*1962*	*2070*
Federal Government	525	538	544	571	613	*656*	*678*	*691*	*700*	*711*
State & Local Governments	958	1002	1037	1069	1100	*1100*	*1101*	*1118*	*1143*	*1163*
Gross Domestic Product	8782	9274	9825	10082	10446	*10855*	*11425*	*12083*	*12801*	*13573*
Real GDP (1996 Chain Weighted $)	8509	8859	9191	9215	9440	*9661*	*10020*	*10390*	*10785*	*11195*
PRICES AND WAGES-ANNUAL RATES OF CHANGE										
GDP Deflator	1.2	1.4	2.1	2.4	1.1	*1.6*	*1.9*	*2.0*	*2.1*	*2.2*
CPI-All Urban Consumers	1.5	2.2	3.4	2.8	1.6	*1.9*	*2.0*	*2.1*	*2.3*	*2.5*
PPI-Finished Goods	-0.9	1.8	3.7	2.0	-1.3	*2.4*	*1.2*	*1.5*	*1.8*	*2.0*
Employment Cost Index—Total Comp.	3.5	3.2	4.6	4.1	3.8	*3.8*	*3.2*	*3.1*	*3.2*	*3.2*
Productivity	2.6	2.4	2.9	1.1	4.8	*3.5*	*2.6*	*2.5*	*2.5*	*2.5*
PRODUCTION AND OTHER KEY MEASURES										
Industrial Prod. (% Change)	6.5	4.9	5.0	-4.1	-1.1	*1.4*	*5.8*	*6.0*	*4.0*	*3.0*
Factory Operating Rate (%)	81.9	81.4	81.4	75.6	73.7	*73.5*	*76.5*	*78.0*	*79.0*	*80.0*
Nonfarm Inven. Chg. (1996 Chain Weighted $)	75.0	64.2	67.2	-63.2	4.1	*13.0*	*54.8*	*60.0*	*55.0*	*50.0*
Housing Starts (Mill. Units)	1.62	1.65	1.57	1.60	1.71	*1.77*	*1.65*	*1.65*	*1.67*	*1.70*
Total Light Vehicle Sales (Mill. Units)	15.5	16.9	17.4	17.1	16.8	*16.4*	*17.0*	*17.5*	*17.7*	*17.8*
Unit Car Sales (Mill. Units)	8.1	8.7	8.9	8.4	8.1	*7.6*	*7.8*	*7.9*	*8.0*	*8.0*
National Unemployment Rate (%)	4.5	4.2	4.0	4.8	5.8	*6.1*	*6.0*	*5.7*	*5.6*	*5.5*
Federal Budget Surplus (Unified, FY, $Bill)	69.2	124.4	236.9	127.3	-157.8	*-380.0*	*-400.0*	*-400.0*	*-300.0*	*-225.0*
Price of Oil ($Bbl., U.S. Refiners' Cost)	12.58	17.42	28.21	22.95	24.00	*28.00*	*25.00*	*25.00*	*24.00*	*24.00*
MONEY AND INTEREST RATES										
3-Month Treasury Bill Rate (%)	4.8	4.6	5.8	3.4	1.6	*1.1*	*1.6*	*2.0*	*2.3*	*2.5*
Federal Funds Rate (%)	5.4	5.0	6.2	3.9	1.7	*1.1*	*1.4*	*2.0*	*2.5*	*3.0*
10-Year Treasury Note Rate (%)	5.3	5.6	6.0	5.0	4.6	*4.0*	*4.6*	*5.2*	*5.3*	*5.5*
30-Year Treasury Bond Rate (%)	5.6	5.9	5.9	5.5	5.4	*5.1*	*5.6*	*6.0*	*6.2*	*6.3*
AAA Corporate Bond Rate (%)	6.5	7.0	7.6	7.1	6.5	*5.9*	*6.3*	*6.5*	*6.6*	*6.8*
Prime Rate (%)	8.4	8.0	9.2	6.9	4.7	*4.1*	*4.4*	*5.0*	*5.5*	*6.0*
INCOMES										
Personal Income (% Change)	7.0	4.9	8.0	3.3	2.8	*4.3*	*5.3*	*5.2*	*5.3*	*5.5*
Real Disp. Inc. (% Change)	5.4	2.6	4.8	1.8	4.3	*4.6*	*3.8*	*2.5*	*2.7*	*3.0*
Personal Savings Rate (%)	4.8	2.6	2.8	2.3	3.7	*4.1*	*4.5*	*3.5*	*3.5*	*3.0*
Pretax Corporate Profits ($Bill)	721.1	762.0	782.0	670.0	665.0	*748.0*	*829.0*	*929.0*	*1022.0*	*1103.0*
Aftertax Corporate Profits ($Bill)	482.3	514.0	523.0	471.0	452.0	*495.0*	*547.0*	*613.0*	*674.0*	*728.0*
Yr-to-Yr % Change	-13.1	6.6	1.7	-10.0	-4.0	*9.5*	*10.5*	*12.0*	*10.0*	*8.0*
COMPOSITION OF REAL GDP-ANNUAL RATES OF CHANGE										
Gross Domestic Product	4.3	4.1	3.8	0.3	2.4	*2.3*	*3.7*	*3.7*	*3.8*	*3.8*
Final Sales	4.2	4.3	3.7	1.5	1.8	*2.4*	*3.6*	*3.5*	*3.5*	*3.5*
Total Consumption	4.8	4.9	4.3	2.5	3.1	*2.8*	*4.1*	*3.3*	*3.4*	*3.5*
Nonresidential Fixed Investment	12.5	8.1	7.8	-5.2	-5.7	*1.6*	*7.9*	*9.0*	*8.5*	*8.0*
Construction	6.8	-1.3	6.5	-1.7	-16.4	*-5.9*	*2.7*	*10.0*	*8.0*	*7.0*
Equipment & Software	14.6	11.5	8.2	-6.4	-1.7	*3.9*	*8.8*	*9.0*	*9.0*	*8.0*
Residential Fixed Investment	8.0	6.8	1.1	0.3	3.9	*5.4*	*0.8*	*1.0*	*2.0*	*3.0*
Exports	2.1	3.4	9.7	-5.4	-1.5	*0.4*	*7.6*	*10.9*	*9.8*	*8.1*
Imports	11.8	10.8	13.2	-2.9	3.7	*4.0*	*7.2*	*7.3*	*6.0*	*5.5*
Federal Government	-0.8	2.4	1.2	4.8	7.3	*6.9*	*3.4*	*2.0*	*1.3*	*1.5*
State & Local Governments	3.4	4.6	3.5	3.1	2.9	*0.0*	*0.1*	*1.5*	*2.3*	*1.7*

2004 - 20 Aug 5.15%

Item 19, page 5

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Description of the latest issue - September 200

Gail Fosler
Chief Economist

Global Growth

- Recovery is under way, with a likely 18–24 month life span
- Emerging markets will outpace advanced economies—but financial risks persist
- Latin America still lags rest of emerging markets
- Costs and capacity control are job number one for global business—still!

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The U.S. Economic Forecast*

October 2003

	2003			2004			2002	2003	2004
	II Q*	III Q	IV Q	I Q	II Q	III Q	ANNUAL	ANNUAL	ANNUAL
Real GDP	3.3	4.8	5.1	5.2	3.7	4.0	2.4	2.7	4.4
CPI Inflation	0.6	2.2	1.9	2.0	2.0	2.5	1.6	2.3	2.0
Real Consumer Spending	3.8	6.6	3.6	4.6	3.7	3.5	3.1	3.2	4.2
Unemployment Rate (%)	6.2	6.3	6.2	6.1	6.0	6.0	5.8	6.1	6.0
90 Day T-Bills (%)	1.04	0.88	0.83	0.98	1.23	1.48	1.61	0.98	1.42
10 Yr Treas Bonds (%)	3.62	4.35	4.35	4.60	5.00	5.00	4.61	4.06	4.98

*** Current $ Level With IVA & CCA

*Seasonally adjusted, annual rates except where noted.
Source: The Conference Board

Item 19. page 6

I/B/E/S: EARNINGS ESTIMATES

--PERIOD-	MEAN	HIGH	LOW	# OF ESTS	CHG IN MEAN($): 1MONTH	3MONTH
	------EPS EST'S------					
FY 12/03	3.24	3.64	3.05	9	-0.17	-0.56
FY 12/04	3.62	4.12	3.20	10	-0.13	-0.26
QTR 09/03	0.90	0.90	0.90	1	0.00	0.43
QTR 12/03	1.20	1.20	1.20	1	0.00	0.20

EARNINGS PER SHARE ANNUAL GROWTH RATES

LAST 5 YEARS	4.2%	FY03/02	-15.4%	QTR 09/03	-6.2%
NEXT 5 YEARS	5.2%	FY04/03	11.8%	QTR 12/03	-0.8%

	PRICE	ESTD F/Y EPS: 12/03	12/04	YIELD
DTE DTE ENERGY				
INDUSTRY CODE: ELECUT				
ELECTRICAL UTILITIES	34.75	3.24	3.62	5.9%

FY12/02 EPS:	3.83	DIVIDEND:	2.06	YIELD:	5.9%
FY12/03 P/E:	10.7	P/E REL S&P:	0.50	P/E REL IND:	0.81
FY12/04 P/E:	9.6	P/E REL S&P:	0.52	P/E REL IND:	0.76

	----FCST EPS GRWTH---- DTE	IND	S&P 500	---RELATIVE---- DTE TO IND	DTE TO S&P
FY03 VS FY02	-15.4%	3.6%	16.1%	-432	-96
FY04 VS FY03	11.8%	5.1%	12.6%	231	93
→ NEXT 5 YEARS	5.2%	5.1%	12.2%	101	42
LAST 5 YEARS	4.2%	6.3%	9.7%	82	34
P/E FY 2002	10.7	13.2	21.4	81	50
P/E FY 2003	9.6	12.7	18.4	76	52

DISTRIBUTION OF EPS ESTS. AS OF 08/29/03

DTE EPS FY 12/02 $ 3.83

FY 12/03 - 9 ESTS
MEAN EPS $ 3.24

FY 12/04 - 10 ESTS
MEAN EPS $ 3.62

```
   L                                            L
 L L XLX    X N         X         LLL   L XX N    X X
+--------+--------+--------+  +--------+--------+--------+
$3.00     3.25     3.50   3.3.00    3.50     4.00    4.50
X=EST R/L=RAISED/LOWERED PAST MO. N=NEW PAST MO. *=9+ ESTS
```

Item 19, page 7

Zacks Company Report as of 10/31/03 — Next EPS Report Date: 01/15/04

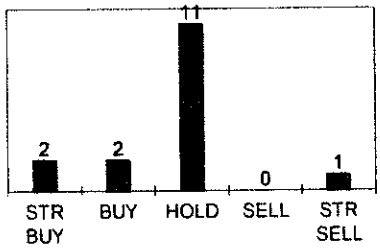
Industry: *UTIL-ELEC PWR* — Type: *Large Blend*

Rec Price	P/E	Mkt Cap	Div Rate	Yield	Sales (12Mo)	Sls Gr	EPS Gr	Div Gr	Zacks Rank
$36.31	13.3	$6445 MM	$1.84	5.1%	$6725 MM	5%	5%	0%	Hold

Cinergy Corp. is one of the nation's leading diversified energy companies. Cinergy owns or operates electrical and heat plant generators that are either operational or under development domestically and internationally. It also has electric and gas transmission lines in the U.S. and abroad. Cinergy Solutions focuses on cogeneration, energy services and utility outsourcing for large industrials, municipalities, universities and other large energy consumers. Its customers include BP Amoco, Kodak and General Motors. (Company Press Release)

Ave Broker Rec	#Up	#Dn
HOLD	0	2

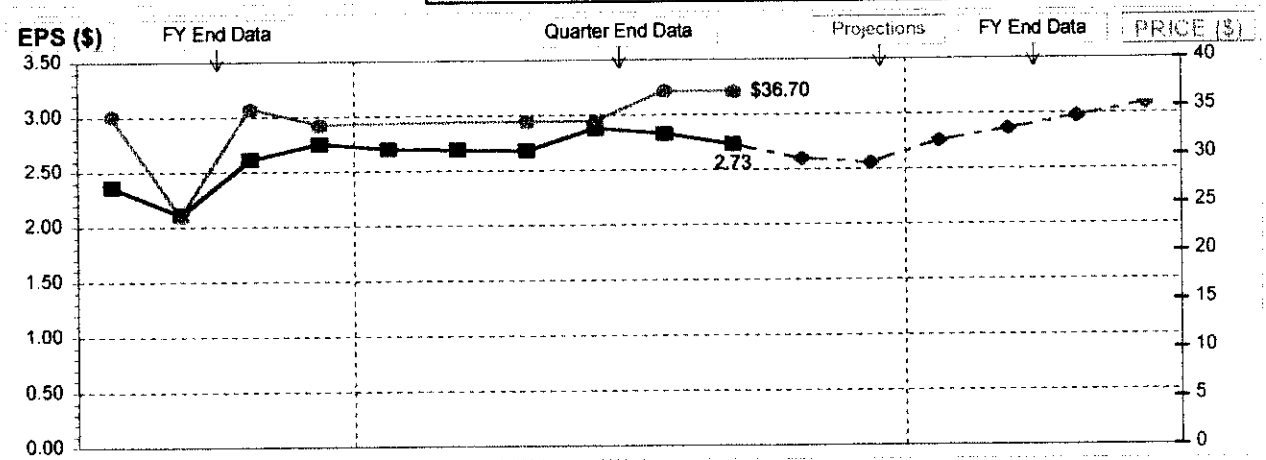
Broker Recommendations

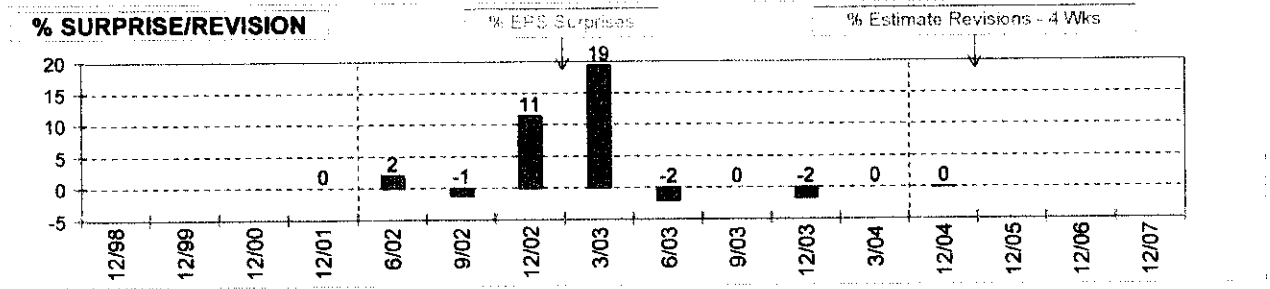


Price/Volume Data	
52-Wk High	$38.59
Low	$29.36
PriceChg-YTD	8%
-YTD(Rel)	-10%
Avg Dly Vol	710 000s
Exp Return/Risk	
Impl Ret=Yld+Gr	9%
Beta	-0.04
Shareholder Data	
Shares Out	177.5 MM
Institutions	67.68%
Insiders	1.98%

EPS,P/E and Growth Rates	EPS	P/E	Yr/Yr EPS Gr
FY			
12/02 Act	2.68	12.6	-3%
12/03 Est	2.61	13.9	-3%
12/04 Est	2.76	13.2	6%
Last 5Yr			5%
Next 3-5Yr (Est)			4%

Other Key Measures	Current	5-Year Avg
P/E (12 Mo)	13.3	12.4
Rel P/E	56%	
Net Margin	7%	5.4%
ROE	13.2%	14.3%
LT Debt/Cap	53%	53%





UTIL-ELEC PWR Industry # 193	Pr Chg YTD	P/E (12Mo)	EPS Gr 5Yr Est	Price/ Book	Price/ Sales	Price/ CF	Impl Ret/ P/E	Div Yield	Net Margin	ROE	Debt/ Cap
	Industry Comparables										
CINERGY CORP	8%	13.3	4%	1.8	1.0	7.0	0.67	5.1%	6.9%	13%	53%
INDUSTRY AVG*		13.6	5%	1.4		6.0	0.63	3.8%	6.2%	11%	
S&P 500	19%	23.9	7%	5.2				1.6%		17%	

* 103 Companies in industry group.

Latest Splits: 12/03/92 1.500 — Ex-Div. Date: 10/16/03

(1.6 * 1.07) + 7

THE VALUE LINE Investment Survey

Part 1
Summary & Index

File at the front of the *Ratings & Reports* binder. Last week's *Summary & Index* should be removed.

October 10, 2003

TABLE OF SUMMARY & INDEX CONTENTS

Summary & Index Page Number

Industries, in alphabetical order 1
Stocks, in alphabetical order 2-23
Noteworthy Rank Changes 24

SCREENS

Industries, in order of Timeliness Rank 24
Timely Stocks in Timely Industries 25-26
Timely Stocks (1 & 2 for Performance) 27-29
Conservative Stocks (1 & 2 for Safety) 30-31
Highest Dividend Yielding Stocks 32
Stocks with Highest 3- to 5-year Price Potential 32
Biggest "Free Flow" Cash Generators 33
Best Performing Stocks last 13 Weeks 33
Worst Performing Stocks last 13 Weeks 33
Widest Discounts from Book Value 34
Stocks with Lowest P/Es 35
Stocks with Highest P/Es 35
Stocks with Highest Annual Total Returns 36
Stocks with Highest 3- to 5-year Dividend Yield 36
High Returns Earned on Total Capital 37
Bargain Basement Stocks 37
Untimely Stocks (5 for Performance) 38
Highest Dividend Yielding Non-utility Stocks 38
Highest Growth Stocks 39

The Median of Estimated
PRICE-EARNINGS RATIOS
of all stocks with earnings

17.8

26 Weeks Ago	Market Low 9-21-01	Market High 4-16-02
15.2	15.4	20.9

The Median of Estimated
DIVIDEND YIELDS
(next 12 months) of all dividend paying stocks under review

1.9%

26 Weeks Ago	Market Low 9-21-01	Market High 4-16-02
2.2%	2.2%	1.6%

The Estimated Median Price
APPRECIATION POTENTIAL
of all 1700 stocks in the hypothesized economic environment 3 to 5 years hence

50%

26 Weeks Ago	Market Low 9-21-01	Market High 4-16-02
65%	105%	55%

ANALYSES OF INDUSTRIES IN ALPHABETICAL ORDER WITH PAGE NUMBER

Numeral in parenthesis after the industry is rank for probable performance (next 12 months).

Industry	PAGE	Industry	PAGE	Industry	PAGE	Industry	PAGE
Advertising (67)	1924	Educational Services [illegible]	[illegible]	[illegible]	[illegible]	Railroad [illegible]	[illegible]
Aerospace/Defense (58)	543	Electrical Equipment [illegible]	[illegible]	[illegible]	[illegible]	R.E.I.T. [illegible]	[illegible]
Air Transport (39)	253	Electric Util. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apparel (63)	1651	Electric Utility [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Auto & Truck (37)	101	Electric Utility (West) [illegible]	[illegible]	[illegible]	[illegible]	*Retail Building Supply [illegible]	[illegible]
Auto Parts (31)	795	Electronics (34)	[illegible]	[illegible]	[illegible]	Retail (Special Lines) (14)	1706
Bank (42)	2101	Entertainment [illegible]	[illegible]	[illegible]	[illegible]	Retail Store (21)	[illegible]
Bank (Canadian) (64)	1570	Entertainment [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank (Midwest) (65)	613	Environmental [illegible]	[illegible]	[illegible]	[illegible]	Semiconductor [illegible]	1051
Beverage (Alcoholic) (60)	1537	Financial Svcs. (Div.) [illegible]	[illegible]	Metal Fabricating [illegible]	586	Semiconductor Equip (52)	1612, 1091
Beverage (Soft Drink) (51)	1545	Food Processing (81)	[illegible]	Metals & Mining (Div.) (50)	1228	Shoe (47)	1693
Biotechnology (41)	670	Food Wholesalers (24)	1532	Natural Gas (Distrib.) (88)	459	Steel (General) (96)	576
*Building Materials (76)	851	Foreign Electronics (68)	1561	Natural Gas (Div.) (45)	437	Steel (Integrated) (97)	1414
Cable TV (17)	828	Foreign Telecom. (7)	768	Newspaper (69)	1910	Telecom. Equipment (9)	745
Canadian Energy (72)	428	*Furn/Home Furnishings (94)	895	Office Equip/Supplies (36)	1136	Telecom. Services (30)	719
*Cement & Aggregates (43)	888	Grocery (62)	1517	Oilfield Svcs/Equip. (89)	1944	Textile (46)	1665
Chemical (Basic) (93)	1239	Healthcare Information (18)	[illegible]	Packaging & Container (77)	[illegible]	Thrift (81)	1161
Chemical (Diversified) (89)	1966	Home Appliance (32)	117	*Paper/Forest Products [illegible]	[illegible]	Tire & Rubber (79)	111
Chemical (Specialty) (82)	477	*Homebuilding (1)	867	Petroleum (Integrated) (57)	405	Tobacco (92)	1577
Coal (70)	526	Hotel/Gaming (55)	1878	Petroleum (Producing) (40)	1933	Toiletries/Cosmetics (16)	817
Computers/Peripherals (28)	1106	*Household Products (78)	941	Pharmacy Services (5)	783	Trucking (38)	266
Computer Software/Svcs (11)	2172	Human Resources (80)	1290	*Power [illegible]	676	Water Utility [illegible]	1420
Diversified Co. (75)	1377	Industrial Services (71)	624	Precious Metals [illegible]	1219	Wireless Networking (13)	511
Drug (18)	1246	Information Services (8)	389	Precision Instrument [illegible]	124		
E-Commerce (12)	1434	Insurance (Life) (56)	1205	Publishing (66)	1896		

*Reviewed in this week's issue.

In three parts: This is Part 1, the Summary & Index. Part 2 is [illegible], Part 3 is [illegible] & Reports, Volume LIX, No. 6.

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Item 19, page 9

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

20. In reference to Schedules 44-49:

a. Provide a computer disc with all data and calculational formulas underlying these schedules.

b. Explain why Dr. Weaver ended the analysis in 2001, rather than going through 2002.

c. Explain why Dr. Weaver used only nine holding periods, while in past testimonies he has used ten.

d. Is it Dr. Weaver's opinion that investors would give the same weight to a return achieved, for example, between 1994-1995 compared with a return achieved in 2000-2001? Explain the response.

e. Provide a copy of the Standard and Poor's *Stock Reports* dated November 30, 2002 for each company.

f. Provide a copy of the most recent Standard & Poor's *Stock Reports* for each company.

g. Provide a copy of the source from which the yields on Treasury securities were taken.

Answer:

a. enclosed

b. See testimony, page 43, line 22 through page 44, line 9.

c. The "Business Cycle Dating Committee" of the National Bureau of Economic Research "determined that a trough in business activity occurred in the U.S. economy in November 2001. The trough marks the end of the recession than began in March 2001 and the beginning of an expansion" (NBER Report released July 2003). 1992 marked the beginning of an expansion that ran to the recession that began in March 2001. This period represents a complete business cycle. If 1992 had been included, a complete cycle plus a year containing an expansion would be represented. The data would be biased upward.

d. No. Stock market performance is a leading economic indicator. Investors react to their expectations rather than historical results. This a major reason why a complete business should be included in historical data analysis. The period 1994-1995 represents a period of economic expansion that would have been anticipated prior to it occurring. Likewise, the period 2000-2001 ended with a March 2001 through November 2001 recession. Investor expectations would perhaps foreseen both events but the amount of lead time in foreseeing the expansion and recession may differ causing the two period to be incomparable.

e. Attached.

f. Attached.

g. Attached

Cinergy Corp.

NYSE Symbol **CIN**
In S&P 500

06-SEP-03 **Sub-Industry:** Electric Utilities

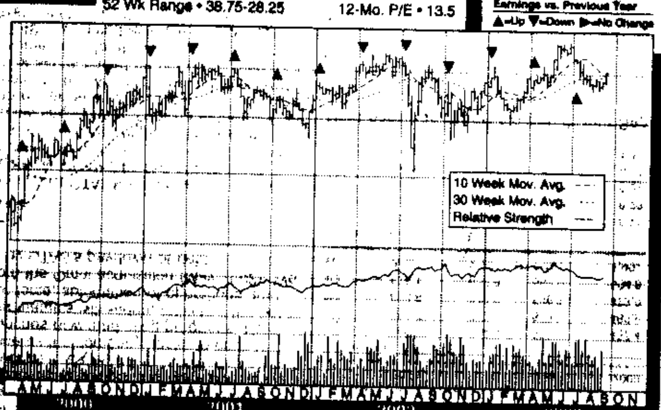
Summary: CIN is the holding company for Cincinnati Gas & Electric Co. and PSI Energy, serving more than 1.5 million electric and 495,000 gas customers in Indiana, Ohio and Kentucky.

S&P Opinion: Hold (★★★)

Price As Of 9/05/03 • 35.26 | Yield • 5.2%
52 Wk Range • 38.75-28.25 | 12-Mo. P/E • 13.5

Quantitative Evaluations
Outlook (1 Lowest—5 Highest) • 3
Fair Value • [illegible]
Risk • Low
Earn./Div. Rank • [illegible]

Technical Eval. • [illegible] since 7/03
Rel. Strength Rank (1 Lowest—99 Highest) • 31
Insider Activity • [illegible]



Overview - 13-AUG-03

After an anticipated decline of about 1% in 2003 (from 2002's operating EPS of $2.68), we expect EPS to increase 3% to 4% in 2004. Although the energy merchant operations are expected to perform better, earnings should remain restricted by the impact of the weak economy on CIN's large base of industrial customers. In 2002, operating EPS (which excludes $0.55 in one-time charges) was diluted by 6.5 million additional shares. In August 2000, Ohio regulators approved an agreement that froze CG&E's residential rates through the end of 2005. The agreement also authorized the transfer of CIN's generation assets to an unregulated subsidiary, and allowed it to recover its regulatory assets (liabilities that can be charged to customers) and other transition costs over 10 years. To comply with state and federal Clean Air Act requirements that begin in 2003, CIN's utilities agreed to invest, over a 15-year period, over $1.3 billion in pollution control equipment aimed at reduction of nitrogen oxide (NOx) emissions. We estimate Standard & Poor's Core Earnings per share of $2.71 in 2003.

Valuation - 13-AUG-03

We have raised our opinion on Cinergy stock to hold from avoid. With the shares having declined from their recent high, the stock is now trading at P/E multiples of our EPS estimates for 2003 and 2004 that are in line with the company's electric and gas utility peers. With the decline in the share price, the yield from what we consider to be a secure dividend has risen to a level (well over 5%) that is slightly above the industry average. While the dividend payout ratio (at 69% of our [redacted] estimates) is above the industry average, it is within the company's comfort level. The dividend was in-[redacted] 2003 payment, and with [redacted] been cut from the earned [redacted] similar annual increases over the next few years. Based on CIN shares trading at a multiple similar to the recent P/E of 12.8X our EPS estimate for 2003, we have a 12-month target price of $35.

Key Stock Statistics

S&P EPS Est. 2003	2.65	Tang. Bk. Value/Share	20.19
P/E on S&P Est. 2003	13.3	Beta	-0.08
S&P EPS Est. 2004	2.75	Shareholders	55,637
Dividend Rate/Share	1.84	Market cap. (B)	$ 6.3
Shs. outstg. (M)	177.5	Inst. holdings	67%
Avg. daily vol. (M)	0.790		

Value of $10,000 invested five years ago: $ 13,171

Fiscal Year Ending Dec. 31

	2003	2002	2001	2000	1999	1998
Revenues (Million $)						
1Q	1,282	2,204	3,707	1,583	1,402	1,332
2Q	933.9	2,480	3,642	1,770	1,275	1,072
3Q	—	3,886	3,324	2,300	1,782	1,976
4Q	—	3,417	2,250	2,770	1,478	1,384
Yr.	—	11,960	12,923	8,422	5,938	5,876
Earnings Per Share ($)						
1Q	0.80	0.58	0.75	0.87	0.80	0.67
2Q	0.42	0.28	0.51	0.47	0.37	-0.16
3Q	E0.47	0.77	0.80	0.58	0.76	0.69
4Q	E0.61	0.58	0.69	0.58	0.60	0.45
Yr.	E2.65	2.34	2.75	2.50	2.53	1.65

Next earnings report expected: late October

Dividend Data (Dividends have been paid since 1853.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.450	Sep. 30	Oct. 10	Oct. 15	Nov. 15 '02
0.460	Jan. 14	Jan. 22	Jan. 24	Feb. 15 '03
0.460	Apr. 22	Apr. 30	May. 02	May. 15 '03
0.460	Jul. 23	Jul. 30	Aug. 01	Aug. 15 '03

Business Summary - 13-AUG-03

Cinergy Corp. is a holding company serving about 1.5 million electric customers and 500,000 gas customers in a 25,000 square mile area of Ohio, Indiana and Kentucky. It was formed through the 1994 merger of Cincinnati Gas & Electric Co. and PSI Resources, Inc.,

Contributions to revenues by business segment in 2002 were: electric, 57.8% (63.5% in 2001); gas, 41.1% (35.9%), and other 1.1% (0.6%).

In its order approving the merger, the SEC reserved jurisdiction over the company's ownership of Cincinnati Gas & Electric's (CG&E) gas operations for three years. At the end of the three years, CIN was required to state how its retention of the gas properties met all relevant standards of the Public Utility Holding Company Act (PUHCA) of 1935. In February 1998, the company filed with the SEC its rationale of how its retention of the gas operations met PUHCA requirements. In November 1998, the SEC approved Cinergy's retention of the CG&E gas operations.

Cincinnati Gas & Electric (CG&E) and its subsidiaries supply electricity and natural gas in the southwestern portion of Ohio and adjacent areas in Kentucky and Indiana. The primary subsidiary of PSI Resources (formerly PSI Holdings) is PSI Energy (formerly Public Service Company of Indiana), which is the largest electric utility in Indiana, serving a population of approximately 2.2 million.

CG&E and PSI purchase about 28 million tons of coal annually, around 80% through long-term contracts, and the rest through the spot market or short term supply agreements. The coal is primarily received from mines located in Indiana, West Virginia, Ohio, Kentucky, Pennsylvania and Illinois.

Consolidated construction and other capital expenditures for 2002 were $988 million. For the period from 2003 though 2007, CIN has projected capital and investment spending of $3.86 billion. The forecast includes capital expenditures (estimated at approximately $640 million) required to comply with proposed nitrogen oxide (NOx) limits.

In July 1999, CIN sold its 50% interest in Midlands Electricity plc, a British regional electric company serving more than 2 million customers in England, to GPU for about $700 million. Including CIN's share of liabilities assumed by GPU, the transaction was valued at $1.55 billion. CIN retained Midlands' London-based gas trading operations. It also maintained its U.K.-based CINergy Global Power Services, which was involved in the development of international energy projects.

The company's other principal subsidiaries include Cinergy Wholesale Energy, the holding company for Cinergy Power Generation Services, which provides electric production-related construction, operation and maintenance services; Cinergy Services, which provides the subsidiaries with centralized administrative, management and support services; Cinergy Global Resources, which holds CIN's international businesses and investments; and Cinergy Investments, which holds most of the company's domestic non-regulated, energy-related businesses and investments.

Per Share Data ($)

(Year Ended Dec. 31)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Tangible Bk. Val.	19.14	18.02	17.54	18.69	15.91	18.00	18.28	18.17	15.40	17.10
Earnings	2.34	2.75	2.50	2.53	1.65	2.28	2.00	2.22	1.30	-0.39
S&P Core Earnings	2.11	2.41	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	1.80	1.80	1.80	1.80	1.80	1.80	1.74	1.72	1.39	1.68
Payout Ratio	77%	65%	72%	71%	109%	10%	87%	77%	107%	NM
Prices - High	37.19	35.60	35.25	34.87	39.87	39.12	34.25	31.12	27.75	29.62
- Low	25.40	28.00	20.00	23.43	30.81	32.00	27.50	23.37	20.75	23.87
P/E Ratio - High	16	13	14	14	24	17	17	14	21	NM
- Low	11	10	8	9	19	14	14	11	16	NM

Income Statement Analysis (Million $)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Revs.	11,960	12,923	8,422	5,938	5,876	4,353	3,243	3,031	2,924	1,752
Depr.	414	378	374	354	326	289	283	280	294	152
Maint.	NA	NA	205	206	192	176	194	182	201	109
Fxd. Chgs. Cov.	2.95	3.56	3.82	2.90	2.30	3.13	3.43	2.33	2.31	1.30
Constr. Credits	NA	NA	NA	NA	NA	7.41	7.41	10.0	18.5	7.00
Eff. Tax Rate	28.2%	36.7%	38.7%	34.0%	31.0%	37.0%	39.5%	38.7%	44.3%	NM
Net Inc.	397	442	399	404	261	363	335	347	191	-8.70
S&P Core Earnings	360	388	NA	NA	NA	NA	NA	NA	NA	NA

Balance Sheet & Other Fin. Data (Million $)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Gross Prop.	13,816	13,083	11,186	10,677	10,195	9,914	9,881	9,619	9,363	5,258
Cap. Exp.	857	848	520	386	369	328	323	325	480	199
Net Prop.	8,649	8,237	6,630	6,417	6,155	6,114	6,290	6,251	6,199	3,786
Capitalization:										
LT Debt	4,452	3,966	2,939	3,082	2,604	2,166	2,535	2,531	2,715	1,829
% LT Debt	57.5	57.4	51.3	53.7	49.7	44.4	47.7	48.3	48.4	49.7
Pfd.	Nil	Nil	Nil	Nil	92.6	178	194	368	478	830
% Pfd.	Nil	Nil	Nil	Nil	1.80	3.60	3.70	7.10	8.60	8.00
Common	3,293	2,942	2,789	2,654	2,641	2,539	2,584	2,549	2,414	1,519
% Common	42.5	42.6	48.7	46.3	48.5	52.0	48.6	46.6	43.1	41.3
Total Cap.	9,217	8,209	6,914	5,736	6,486	6,283	6,636	6,774	6,874	4,553
% Oper. Ratio	93.3	94.7	92.8	91.8	89.1	86.4	82.8	80.8	84.9	81.8
% Earn. on Net Prop.	9.5	12.5	13.2	10.9	9.2	8.8	8.9	9.4	7.2	8.3
% Return On Revs.	3.3	3.4	4.7	6.8	4.4	8.3	10.3	11.5	6.5	NM
% Return On Invest. Capital	7.7	9.4	9.1	11.7	9.0	11.9	8.6	8.9	6.7	3.3
% Return On Com. Equity	12.7	15.4	14.7	15.6	10.3	14.2	13.0	14.0	8.2	NM

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Registrar—Fifth Third Bank, Cincinnati. Office—139 East Fourth St., Cincinnati, OH 45202. Tel—(513) 421-9500. Website—http://www.cinergy.com Chrmn, Pres & CEO—J. E. Rogers. EVP & CFO—R. F. Duncan. Secy—J. S. Janson. Investor Contact—Steve Schrader (513-287-1083). Dirs—M. G. Browning, P. R. Cox, G. C. Juilfs, T. E. Petry, J. E. Rogers, M. L. Schapiro, J. J. Schiff Jr., P. R. Sharp, D. S. Taft. Transfer Agent & Registrar—National City Bank, Cleveland, OH. Incorporated—in Ohio in 1837; reincorporated in Delaware in 1994. Empl— 7,823. S&P Analyst: Justin McCann/CB/JWP

Item 20, page 3

STANDARD &POOR'S

STOCK REPORTS

Constellation Energy Group

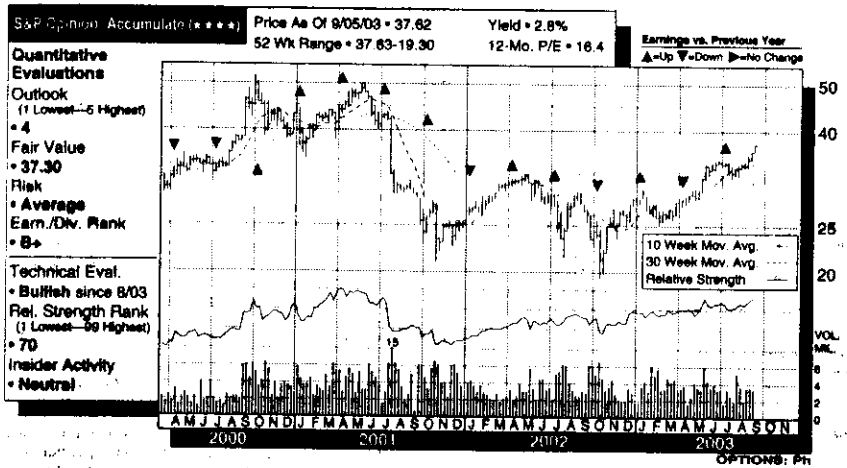
NYSE Symbol **CEG**

In S&P 500

06-SEP-03

Sub-Industry: Multi-Utilities & Unregulated Power

Summary: This holding company owns energy-related businesses, including a North American wholesale power marketing and merchant generation business, and Baltimore Gas and Electric Co.



Overview - 08-AUG-03

Accounting rule changes will force CEG to record certain contracts on a gross basis beginning in 2003 (increasing reported revenues and operating expense by equal amounts). We look for revenues net of operating expense to increase more than 9%, driven by cost cuts, acquisitions, and growing energy risk management services. We look for nearly flat depreciation and amortization charges. However, we expect a more than 15% increase in net interest expense, largely due to reductions in capitalized interest. In our estimation, operating earnings should grow almost 13%. Our 2003 EPS estimate excludes a first quarter asset sale gain of $0.04, and a net first quarter charge of $1.20, related to accounting changes. Reported EPS in 2002 reflected net one-time gains of $0.68, including $1.00 in first quarter asset sale gains (primarily from the $454 million sale of CEG's interest in Orion Power Holdings). We estimate 2003 Standard & Poor's Core Earnings per share at $2.82.

Valuation - 08-AUG-03

We see CEG's acquisitions of quality assets from distressed energy merchants over the past 12 months providing meaningful EPS growth opportunities. In particular, we are very impressed by the company's creation of a national energy risk management business (serving industrial and commercial customers), which we think dovetails well with its large base of unregulated wholesale generation. Management is confident that CEG can generate at least 10% average annual EPS growth over the next three to four years. Given CEG's investment grade credit rating and its strong hedged position for merchant generation, we believe the shares would be fairly valued at a modest discount to more regulated utility peers. Utilizing just under a 12.5X 2004 P/E ratio (vs. about 13X for more regulated peers), we arrive at a 12-month target price of $38. Combined with over a 3% dividend yield, we expect CEG to provide a total return of about 15% in the coming year.

Key Stock Statistics

S&P EPS Est. 2003	2.84	Tang. Bk. Value/Share	22.71
P/E on S&P Est. 2003	13.2	Beta	0.27
S&P EPS Est. 2004	3.10	Shareholders	50,914
Dividend Rate/Share	1.04	Market cap. (B)	$ 6.3
Shs. outstg. (M)	166.9	Inst. holdings	65%
Avg. daily vol. (M)	0.644		

Value of $10,000 invested five years ago: $ 14,395

Fiscal Year Ending Dec. 31

	2003	2002	2001	2000	1999	1998
Revenues (Million $)						
1Q	2,613	1,046	1,147	999.2	932.3	866.1
2Q	2,271	1,021	843.2	868.0	820.0	787.6
3Q	—	1,270	1,036	981.6	970.5	934.0
4Q	—	1,372	901.9	1,036	1,064	790.4
Yr.	—	4,703	3,928	3,879	3,785	3,366
Earnings Per Share ($)						
1Q	0.49	1.40	0.88	0.48	0.55	0.50
2Q	0.58	0.50	0.46	0.25	0.45	0.39
3Q	E1.20	0.92	1.00	0.99	0.91	1.06
4Q	E0.70	0.39	-1.59	0.57	0.26	0.09
Yr.	E2.84	3.20	0.82	2.30	2.18	2.06

Next earnings report expected: late October

Dividend Data (Dividends have been paid since 1910.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.240	Oct. 18	Dec. 06	Dec. 10	Jan. 02 '03
0.260	Jan. 24	Mar. 06	Mar. 10	Apr. 01 '03
0.260	Apr. 25	Jun. 06	Jun. 10	Jul. 01 '03
0.260	Jul. 25	Sep. 06	Sep. 10	Oct. 01 '03

Item 20. Page 4

STANDARD &POOR'S

STOCK REPORTS

Constellation Energy Group, Inc.

06-SEP-03

Business Summary - 08-AUG-03

In recent periods, Constellation Energy Group has made strategic acquisitions from distressed energy merchants and utilities while divesting non-core operations. In September 2002, Constellation Energy acquired NewEnergy, a competitive energy supplier for large commercial and industrial customers, from AES Corp. for $250 million in cash. In December 2002, CEG added to its NewEnergy operations through the acquisition of energy management and consulting businesses from Allegheny Energy for $21.2 million. In the first quarter of 2003, CEG also announced the acquisition of 125 megawatts (MW) of Canadian energy management contracts from Dynegy, 940 MW of energy contracts from CMS Energy Corp., and 300 MW of energy contracts from Nicor Energy.

CEG's operating segments include its Merchant Energy business, accounting for 87% of operating income in 2002 (75% in 2001, 87% in 2000); Regulated Electric Utility operations 28% (22%, 34%); Regulated Gas Utility operations 8% (10%, 9%); and Other Nonregulated businesses -4% (-7%, -11%).

Merchant Energy operations include wholesale power generation, energy contract origination and risk management services, and retail energy supply services. With the April 2003 completion of a new 830 MW California power plant, Merchant Energy owned approximately 12,130 MW of generation capacity. During 2002, 89.1% of Energy Merchants generation output was derived from nuclear and coal fired power plants. This segment also houses competitive supply operations conducted by NewEnergy and other businesses.

Regulated utility operations are performed by Baltimore Gas and Electric (BGE), which served 1.17 million electric customers and 609,000 gas customers at the end of 2002. BGE's residential electric rates have been fixed through July 2006 under Maryland's electric deregulation initiatives. CEG shareholders get to share in gas fuel cost savings BGE realizes for distribution customers that also rely on it for gas supply (BGE supplies about half the gas on its distribution system).

Other Nonregulated businesses include Energy Products and Services for commercial and industrial customers, residential HVAC (heating, ventilation and air-conditioning) and competitive retail energy supply services, and district cooling services for Baltimore commercial customers.

During 2002, CEG raised a total of $838 million in cash from divestitures. In February 2002, the company sold its interests in shares of Orion Power to Reliant Resources for $454 million. In March, CEG sold its interests in Corporate Office Properties Trust through a public offering, raising $101.3 million. Additional 2002 divestitures included a South American generation project, 18 senior living facilities, and about 800 acres of land holdings.

Per Share Data ($) (Year Ended Dec. 31)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Tangible Bk. Val.	22.71	23.44	20.68	19.95	19.98	19.44	19.25	18.96	18.42	17.82
Earnings	3.20	0.82	2.30	2.18	2.06	1.72	1.85	2.02	1.93	1.85
S&P Core Earnings	1.75	0.34	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	0.96	0.48	1.68	1.68	1.66	1.63	1.59	1.58	1.51	1.47
Payout Ratio	30%	92%	73%	77%	81%	95%	86%	77%	78%	79%
Prices - High	32.38	50.14	52.06	31.50	35.25	34.31	29.50	29.00	25.50	27.50
- Low	19.30	20.90	27.06	24.68	29.25	24.75	25.00	22.00	20.50	22.37
P/E Ratio - High	10	96	23	14	17	20	16	14	13	15
- Low	6	40	12	11	14	14	14	11	11	12
Income Statement Analysis (Million $)										
Revs.	4,703	3,928	3,879	3,787	3,366	3,306	3,153	2,986	2,783	2,666
Depr.	481	419	470	450	377	343	330	317	296	287
Maint.	NA	NA	NA	NA	186	178	179	174	168	165	182
Fxd. Chgs. Cov.	2.90	3.01	3.12	2.98	2.81	2.92	2.69	2.63	2.83	2.76
Constr. Credits	NA	NA	NA	NA	9.70	6.30	10.0	21.8	33.5	22.5
Eff. Tax Rate	37.1%	31.5%	40.0%	36.9%	35.2%	35.8%	34.9%	33.4%	32.2%	30.8%
Net Inc.	526	82.4	345	326	326	283	311	338	324	310
S&P Core Earnings	290	54.9	NA	NA	NA	NA	NA	NA	NA	NA
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	12,354	11,862	10,442	8,989	8,744	8,495	8,196	7,979	7,722	7,359
Cap. Exp.	850	1,318	1,079	436	339	373	361	458	483	478
Net Prop.	7,957	7,700	6,644	5,523	5,657	5,652	5,582	5,498	5,417	5,197
Capitalization:										
LT Debt	4,804	2,903	3,349	2,765	3,128	2,989	2,759	2,596	2,585	2,823
% LT Debt	55.4	43.0	51.5	48.0	51.3	48.5	46.3	43.9	44.6	47.1
Pfd.	Nil	Nil	Nil	Nil	-7.00	23.0	345	511	489	562
% Pfd.	Nil	Nil	Nil	Nil	NM	4.87	5.80	8.60	8.40	9.20
Common	3,662	3,844	3,153	2,993	2,982	2,870	2,857	2,813	2,718	2,621
% Common	44.6	57.0	48.5	52.0	48.9	48.6	48.0	47.5	46.9	43.7
Total Cap.	10,083	8,271	7,943	7,157	7,727	7,432	7,261	7,234	7,097	7,220
% Oper. Ratio	87.2	78.3	84.3	84.8	82.5	75.4	84.1	82.1	82.7	81.9
% Earn. on Net Prop.	17.8	5.0	13.3	13.6	13.1	11.9	12.1	12.7	9.1	9.5
% Return On Revs.	11.2	2.1	8.9	8.6	9.8	8.6	9.9	11.5	11.6	11.6
% Return On Invest. Capital	9.8	10.5	8.2	7.8	11.0	8.6	9.2	9.6	7.2	7.2
% Return On Com. Equity	13.6	2.3	11.2	10.9	10.5	8.9	9.6	10.8	10.6	10.4

Data as orig reptd (for Baltimore G&E pr. to 4/30/99); bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office—750 E. Pratt Street, Baltimore, MD 21202. **Tel**—(410) 234-5000. **Website**—http://www.constellationenergy.com **Chrmn, Pres & CEO**—M. A. Shattuck III. **SVP & CFO**—E. F. Smith. **VP & Secy**—K. A. Chagnon. **Investor Contact**—Jack Thayer (410-783-3647). **Dirs**—Y. C. Balmann, D. L. Becker, J. T. Brady, F. R. Bramble, Sr., E. A. Crooke, J. R. Curtiss, R. W. Gale, F. A. Hrabowski III, E. J. Kelly III, N. Lampton, R. J. Lawless, L. Martin, M. A. Shattuck III, M. D. Sullivan. **Transfer Agent & Registrar**—Co.'s office; Continental Stock Transfer and Trust Co., New York. **Incorporated**—in Maryland in 1906. **Empl**— 8,700. **S&P Analyst:** Craig K. Shere, CFA /CB/JWP

DTE Energy

NYSE Symbol **DTE**
In S&P 500

06-SEP-03

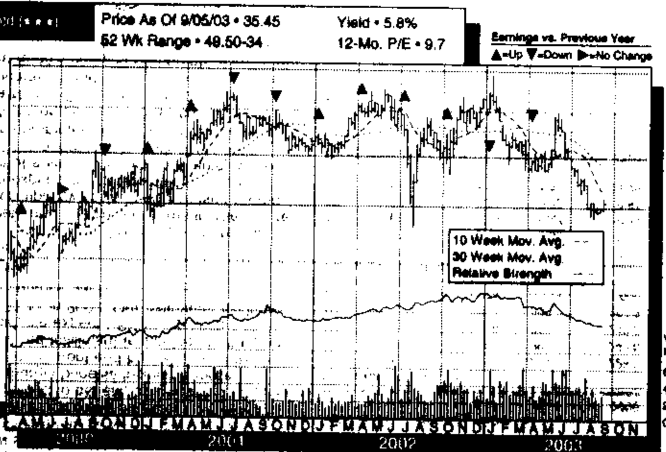
Sub-Industry: Electric Utilities

Summary: This energy holding company for Detroit Edison acquired Detroit-based MCN Energy Group, the holding company for Michigan Consolidated Gas, in 2001.

S&P Opinion: Hold (★★★)

Price As Of 9/05/03 • 35.45 | Yield • 5.8%
52 Wk Range • 49.50-34 | 12-Mo. P/E • 9.7

Quantitative Evaluations
Outlook (1 Lowest—5 Highest) • 2
Fair Value • 32
Risk • Low
Earn./Div. Rank • B+
Technical Eval. • Bearish since 6/03
Rel. Strength Rank (1 Lowest—99 Highest) • 12
Insider Activity • NA



OPTIONS: ASE, Ph

Overview - 18-JUN-03

We expect earnings per share to decline about 8% in 2003. EPS could be hurt by approximately $0.05 a month by reduced production and tax credits related to the company's synthetic fuel production. The IRS has suspended the issuance of private letter rulings related to this production pending its review of the operations. Earnings in 2003 are also expected to be restricted by increased pension, health care and insurance costs. In 2002, EPS were up 10% from 2001's operating EPS of $3.[illegible], [illegible] from the full-year inclusion of Michigan Consolidated Gas, and from an increased contribution from the non-regulated coal-based fuels segment. After state legislation reduced residential rates by 5% as of June 5, 2000, the Michigan Public Service Commission authorized Detroit Edison to recover, by issuing securitized bonds, $1.77 billion of stranded costs. Over the long term, we expect DTE to seek growth through energy opportunities in the Midwest to Northeast. We estimate Standard & Poor's Core Earnings per share of $3.28 for 2003.

Valuation - 18-JUN-03

Due to the uncertainty surrounding the pending review by the IRS of DTE's synthetic-fuel operations, we lowered our opinion on the stock to hold, from accumulate. While prior resolutions of similar issues have resulted in favorable rulings within a six-month period, it is unclear as to when or how this situation will be resolved. However, we still expect DTE to realize long-term benefits from the operations acquired in the MCN Energy acquisition, with the contiguous and overlapping service territories providing a strong base for growth of non-regulated operations. While the stock had benefited from the relatively conservative profile of its operations (in contrast to the liquidity and credit related problems faced by other utility holding companies), the pending review of its synthetic fuel operations [illegible] near term appreciation in the shares. Still, with what we consider a secure dividend yielding about 6%, and with the tax rate on the dividend cut from the [illegible] rate to 15%, we would hold the shares.

Key Stock Statistics

S&P EPS Est. 2003	3.25	Tang. Bk. Value/Share	14.61
P/E on S&P Est. 2003	10.9	Beta	-0.06
S&P EPS Est. 2004	3.66	Shareholders	109,448
Dividend Rate/Share	2.06	Market cap. (B)	$ 6.0
Shs. outstg. (M)	168.2	Inst. holdings	61%
Avg. daily vol. (M)	0.601		

Value of $10,000 invested five years ago: $ 10,736

Fiscal Year Ending Dec. 31

	2003	2002	2001	2000	1999	1998
Revenues (Million $)						
1Q	2,098	1,896	1,842	1,182	1,024	945.0
2Q	—	1,478	1,790	1,428	1,150	1,064
3Q	—	1,636	2,081	1,547	1,440	1,199
4Q	—	1,739	2,136	1,440	1,114	1,019
Yr.	—	6,749	7,849	5,597	4,728	4,221
Earnings Per Share ($)						
1Q	0.84	1.24	0.86	0.81	0.79	0.72
2Q	E0.44	0.42	-0.60	0.76	0.76	0.89
3Q	E0.79	0.96	0.38	0.73	1.11	0.91
4Q	E0.98	1.21	1.34	0.97	0.67	0.72
Yr.	E3.25	3.83	2.14	3.27	3.33	3.05

Next earnings report expected: NA

Dividend Data (Dividends have been paid since 1909.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.515	Nov. 26	Dec. 19	Dec. 23	Jan. 15 '03
0.515	Mar. 03	Mar. 20	Mar. 24	Apr. 15 '03
0.515	Jun. 02	Jun. 19	Jun. 23	Jul. 15 '03
0.515	Sep. 05	Sep. 18	Sep. 22	Oct. 15 '03

Item 20, page 5

DTE Energy Company

Business Summary - 18-JUN-03

DTE Energy, formed on January 1, 1996, is the holding company for Detroit Edison Co., the largest electric utility in Michigan, serving 2.1 million customers in the southeastern part of the state.

On May 31, 2001, the company acquired Detroit-based MCN Energy Group, Inc. (MCN), the holding company for Michigan Consolidated Gas Co. (MichCon). The transaction, under a February 2001 revision of an October 1999 agreement, was for cash (55%) and stock (45%) valued at $2.24 billion (versus $2.6 billion in the original agreement), plus the assumption of $2 billion of debt. MichCon distributes gas to 1.2 million customers throughout Michigan.

DTE Energy's regulated electric and gas businesses accounted for 80.7% of operating revenues in 2002 (80.6% in 2001) and 72.8% of operating income (71.6%). DTE's non-regulated businesses accounted for 19.3% of operating revenues in 2002 (19.4% in 2001) and 27.2% of operating income (28.4%).

The company's non-regulated businesses include DTE Energy Trading Company, which is involved in the trading and marketing of electricity, gas and coal; Energy Services, which consists of businesses that develop and manage energy-related assets and services such as coke and synfuels production, independent power plants, on-site powerhouses and cogeneration facilities, coal services and landfill gas recovery; and DTE Energy Technologies, which markets distributed generation products and monitors and manages system operations.

DTE's other non-regulated businesses include operations acquired in the merger with MCN Energy: the gas and oil exploration and production business, and the gas pipelines and processing business.

The company's consolidated capital spending in 2002 totaled $984 million, down 10.2% from $1.096 billion in 2001 capital expenditures.

In December 1998, the Michigan Public Service Commission (MPSC) authorized accelerated amortization of the Fermi 2 nuclear assets, providing for complete recovery of assets by December 31, 2007.

In June 2000, Michigan enacted legislation establishing January 1, 2002, as the date for full implementation of the MPSC's program providing for full customer choice of electricity supplier, required the MPSC to reduce residential electric rates by 5%, and provided Detroit Edison with the right to recover stranded costs.

In January 2002, transmission assets owned by Detroit Edison were transferred to wholly owned ITC. In December 2002, DTE agreed to sell ITC for about $610 million; the sale was completed February 28, 2003.

Per Share Data ($) (Year Ended Dec. 31)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Tangible Bk. Val.	14.61	16.06	28.15	26.96	25.49	24.55	23.41	23.40	22.66	21.24
Earnings	3.83	2.14	3.27	3.33	3.05	2.88	2.13	2.80	2.67	3.34
S&P Core Earnings	2.80	2.09	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	2.06	2.06	2.06	2.06	2.06	2.06	2.06	2.06	2.06	2.06
Payout Ratio	54%	96%	63%	62%	68%	72%	97%	74%	77%	62%
Prices - High	47.70	47.18	41.31	44.69	49.25	34.75	37.25	34.87	30.25	37.12
- Low	33.05	33.12	28.43	31.06	33.43	26.12	27.62	25.75	24.25	29.87
P/E Ratio - High	12	22	13	13	16	12	17	12	11	11
- Low	9	15	9	9	11	9	13	9	9	9
Income Statement Analysis (Million $)										
Revs.	6,749	7,849	5,597	4,728	4,221	3,764	3,645	3,636	3,519	3,555
Depr.	759	796	758	735	661	660	527	501	476	433
Maint.	NA	NA	NA	NA	NA	NA	278	240	262	251
Fxd. Chgs. Cov.	2.00	2.04	2.42	2.80	2.84	3.21	3.19	3.24	3.04	3.15
Constr. Credits	NA	NA	NA	NA	Nil	Nil	6.36	3.70	3.70	3.00
Eff. Tax Rate	NM	NM	1.89%	11.0%	25.8%	38.1%	41.9%	41.1%	36.8%	36.7%
Net Inc.	632	329	468	483	443	417	309	406	420	492
S&P Core Earnings	463	322	NA	NA	NA	NA	NA	NA	NA	NA
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	17,862	17,067	13,162	12,746	12,178	14,496	13,777	13,304	13,046	12,717
Cap. Exp.	984	1,096	749	739	555	456	531	454	378	399
Net Prop.	9,813	9,543	7,367	7,148	6,943	8,934	8,501	8,519	8,566	8,651
Capitalization:										
LT Debt	7,785	7,928	4,062	4,052	4,323	3,914	3,895	3,758	3,951	3,972
% LT Debt	63.0	63.0	50.3	50.9	53.9	51.3	52.1	50.0	52.6	51.9
Pfd.	Nil	Nil	Nil	Nil	Nil	144	144	327	360	381
% Pfd.	Nil	Nil	Nil	Nil	Nil	1.80	1.90	4.30	5.00	5.00
Common	4,565	4,657	4,015	3,909	3,696	3,562	3,444	3,436	3,326	3,298
% Common	37.0	37.0	49.7	49.1	46.1	46.7	46.0	45.7	44.2	43.1
Total Cap.	13,434	14,063	9,878	9,886	9,909	9,904	9,822	9,902	10,019	9,994
% Oper. Ratio	82.8	86.3	85.3	82.2	81.4	80.2	79.1	79.7	79.6	76.3
% Earn. on Net Prop.	11.4	8.2	11.4	12.8	11.8	8.4	7.2	8.6	8.3	9.8
% Return On Revs.	9.4	4.2	8.4	10.2	10.5	11.1	8.5	11.2	11.9	14.7
% Return On Invest. Capital	9.1	6.9	8.1	8.3	6.2	9.9	6.2	7.4	7.1	9.0
% Return On Com. Equity	13.8	7.6	11.8	12.7	12.2	11.9	8.9	12.0	11.8	15.2

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Office—2000 2nd Ave., Detroit, MI 48226-1279. Tel—(313) 235-4000. Website—http://www.dteenergy.com Chrmn, Pres & CEO—A. F. Earley Jr. SVP & CFO—D. E. Meador. VP & Secy—S. M. Beale. Investor Contact—Peter J. Pintar (313-235-8030). Dirs—T. E. Adderley, L. Bauder, D. Bing, A. F. Earley Jr., A. D. Gilmour, A. R. Glancy III, F. M. Hennessey, T. S. Leipprandt, J. E. Lobbia, E. A. Miller, C. W. Pryor Jr., H. F. Sims. Transfer Agent & Registrar—Bank of New York, NYC. Incorporated—in New York in 1903; reincorporated in Michigan in 1967. Empl— 11,095. S&P Analyst: Justin McCann/CB/JWP

STANDARD & POOR'S
STOCK REPORTS

Empire District Electric

NYSE Symbol **EDE**

06-SEP-03

Sub-Industry: Electric Utilities

Summary: EDE provides electric service to parts of Missouri, Kansas, Oklahoma and Arkansas, and also provides water service to three towns in Missouri.

Quantitative Evaluations

Outlook (1 Lowest—5 Highest)
• 4–

Fair Value
• 22

Risk
• Low

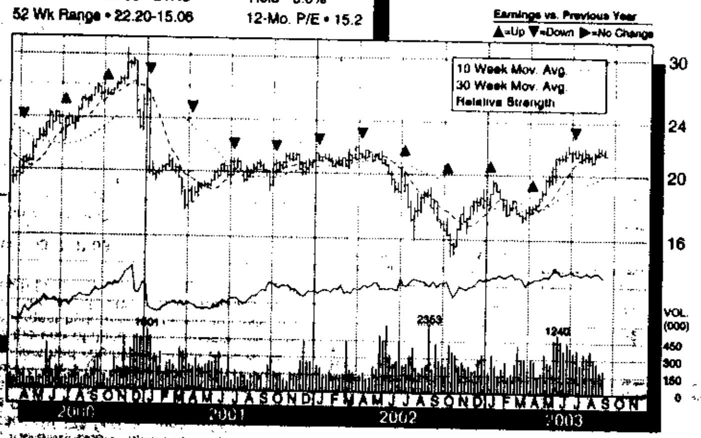
Earn./Div. Rank
• B

Technical Eval.
• Bullish since 8/03

Rel. Strength Rank (1 Lowest—99 Highest)
• 28

Insider Activity
• Neutral

Price As Of 9/05/03 • 21.45 | Yield • 6.0%
52 Wk Range • 22.20-15.06 | 12-Mo. P/E • 15.2



Business Profile - 10-MAR-03

The company attributed its strong 2002 results to increases in rates in Missouri and Kansas, an increase in off-system sales, and more favorable temperatures during 2002. An unrealized gain on derivative instruments and decreases in fuel costs, depreciation and interest expense also boosted earnings. In November 2002, the MPSC approved an agreement that provides for changes in rates for the company's Missouri electric customers effective December 1, 2002. The new rates will increase annual revenues by about $11 million, or just under 5%.

Operational Review - 10-MAR-03

Based on a preliminary report, revenues grew 15% in 2002, reflecting an increase in Missouri rates granted by the Missouri Public Service Commission in September 2001, more favorable weather and an increase in off-system sales. Net income more than doubled, to $25,524,000 ($1.19 a share, on 21% more shares), from $10,403,000 ($0.59).

Stock Performance - 05-SEP-03

In the past 30 trading days, EDE's shares have declined 0.65%, compared to a 2% rise, in the S&P 500. Average trading volume for the past five days was 51,000 shares, compared with the 40-day moving average of 58,164 shares.

Key Stock Statistics

Dividend Rate/Share	1.28	Shareholders	6,482
Shs. outstg. (M)	22.6	Market cap. (B)	$0.489
Avg. daily vol. (M)	0.050	Inst. holdings	25%
Tang. Bk. Value/Share	14.12		
Beta	0.06		

Value of $10,000 invested five years ago: $ 13,846

Fiscal Year Ending Dec. 31

	2003	2002	2001	2000	1999	1998
Revenues (Million $)						
1Q	76.91	66.30	60.65	54.08	54.74	51.99
2Q	74.60	68.91	58.40	57.43	53.31	56.27
3Q	—	99.8	83.34	86.22	81.46	77.88
4Q	—	71.86	61.96	62.32	52.65	54.34
Yr.	—	305.9	264.3	260.0	242.2	239.9
Earnings Per Share ($)						
1Q	0.27	-0.08	0.13	0.14	0.27	0.16
2Q	0.13	0.10	0.04	0.21	-0.02	0.33
3Q	—	0.82	0.42	[illegible]	0.66	0.80
4Q	—	0.16	0.01	0.19	0.21	0.24
Yr.	—	1.19	0.59	1.35	1.13	1.53

Next earnings report expected: early December

Dividend Data (Dividends have been paid since 1944.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.320	Oct. 31	Nov. 26	Dec. 01	Dec. 15 '02
0.320	Feb. 06	Feb. 26	Mar. 01	Mar. 15 '03
0.320	Apr. 24	May. 28	Jun. 01	Jun. 15 '03
0.320	Jul. 24	Aug. 27	Sep. 01	Sep. 15 '03

Item 20, page 6

STANDARD & POOR'S
STOCK REPORTS

The Empire District Electric Company

06-SEP-03

Business Summary - 10-MAR-03

Empire District Electric (EDE) generates, purchases, transmits, distributes and sells electricity in parts of Missouri, Kansas, Oklahoma and Arkansas. The company also provides water service to three towns in Missouri. In 2001, nearly all gross operating revenues came from electricity sales, with under 1% from water sales.

EDE's service territory consists of approximately 10,000 square miles and a population of more than 360,000, primarily throughout southwestern Missouri and smaller parts of southeastern Kansas, northeastern Oklahoma and northwestern Arkansas. In 2001, 88% of total retail electric revenues were earned in Missouri. Kansas, Oklahoma and Arkansas customers provided 6%, 3% and 3% of total electric revenues, respectively. In 2001, 42% of EDE's operating revenues came from residential customers. Commercial, industrial, wholesale and other customers provided 31%, 17%, 6% and 4%, respectively.

The company supplies electric service at retail to 119 incorporated communities, to various unincorporated areas, and at wholesale to four municipally owned distribution systems and two rural electric cooperatives. The largest urban area served is Joplin, MO, and its immediate vicinity, with a population of 157,000. EDE operates under franchises with original terms of 20 years or longer in virtually all of the incorporated communities. About 51% of electric operating revenues in 2001 came from incorporated communities with franchises having at least 10 years remaining, and about 18% were from incorporated communities in which franchises have remaining terms of 10 years or less.

Based on kilowatt hours generated, coal was used to supply 70% of total fuel requirements. Natural gas supplied 29%, with oil generation providing less than 1%. EDE expects to increase the amount of gas used as a fuel source. Construction spending totaled about $71.8 million in 2001. The company projects that construction spending will RISE to $72.2 million in 2002, and $85.8 million in 2003.

The maximum hourly demand on the company's system reached a record high of 1,001 megawatts on August 9, 2001. The previous record peak of 993 megawatts was established in August 2000. EDE set a new maximum hourly winter demand of 941 megawatts on December 19, 2000.

In May 1999, EDE agreed to be acquired by UtiliCorp United, Inc., a Kansas City, MO-based electric and gas utility, for approximately $800 million, including $505 million in stock and cash and the assumption of $260 million in debt. In January 2001, UtiliCorp terminated the agreement, citing lack of receipt of necessary regulatory approvals.

Per Share Data ($) (Year Ended Dec. 31)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Tangible Bk. Val.	14.31	13.32	13.43	13.24	13.16	12.84	12.72	11.72	12.06	11.37
Earnings	1.19	0.59	1.35	1.13	1.53	1.29	1.23	1.18	1.32	1.16
S&P Core Earnings	0.87	0.16	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28
Payout Ratio	108%	NM	95%	113%	84%	99%	104%	108%	97%	110%
Prices - High	21.99	26.56	30.75	26.75	26.12	20.00	19.50	19.75	20.50	24.87
- Low	15.06	17.50	18.93	20.68	18.37	15.75	17.12	15.87	15.00	19.12
P/E Ratio - High	18	45	23	24	17	16	16	17	16	21
- Low	13	30	14	18	12	12	14	13	11	16
Income Statement Analysis (Million $)										
Revs.	306	264	260	242	240	215	209	193	176	169
Depr.	26.1	29.5	27.8	26.4	25.0	23.4	21.6	19.9	18.3	17.4
Maint.	24.4	19.1	14.8	18.3	17.5	12.8	13.7	12.8	10.8	10.6
Fxd. Chgs. Cov.	2.25	1.37	2.06	2.55	2.94	2.63	2.65	2.67	2.99	2.71
Constr. Credits	0.57	3.61	5.76	1.19	0.41	1.20	1.00	2.20	0.98	0.23
Eff. Tax Rate	33.1%	13.9%	32.5%	41.7%	36.7%	35.1%	34.9%	34.5%	35.2%	32.5%
Net Inc.	25.5	10.4	23.6	22.2	28.3	23.8	22.0	19.8	18.7	15.9
S&P Core Earnings	18.5	2.86	NA	NA	NA	NA	NA	NA	NA	NA
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	1,167	1,100	1,049	980	868	810	757	699	667	587
Cap. Exp.	72.8	79.4	134	71.9	51.9	56.7	62.3	50.8	71.6	44.4
Net Prop.	794	750	720	616	572	547	515	476	448	394
Capitalization:										
LT Debt	411	359	326	346	246	196	220	195	185	165
% LT Debt	56.5	57.2	57.6	59.6	48.4	43.8	47.2	46.3	47.2	48.5
Pfd.	Nil	Nil	Nil	Nil	32.6	32.9	32.9	32.9	32.9	7.90
% Pfd.	Nil	Nil	Nil	Nil	6.42	7.30	7.10	7.80	8.40	2.30
Common	329	268	240	234	230	219	213	193	174	168
% Common	44.5	42.8	42.4	40.4	45.2	48.9	45.8	45.9	44.4	49.2
Total Cap.	850	718	657	667	591	527	540	491	459	406
% Oper. Ratio	81.0	82.4	82.2	80.0	80.1	80.9	82.2	82.6	82.0	82.6
% Earn. on Net Prop.	17.8	5.9	6.9	7.2	8.5	7.7	7.4	7.2	7.6	7.7
% Return On Revs.	8.3	3.9	9.1	9.2	11.8	11.1	10.7	10.3	11.1	9.5
% Return On Invest. Capital	7.4	7.1	7.9	8.8	11.2	10.1	9.4	7.0	7.5	7.5
% Return On Com. Equity	8.5	4.1	10.0	9.0	11.5	9.9	9.7	9.5	10.6	9.4

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Office—602 Joplin St., Joplin, MO 64801. **Tel**—(417) 625-5100. **Website**—http://www.empiredistrict.com **Pres & CEO**—W. L. Gipson. **VP-Fin**—G. A. Knapp. **Secy, Treas & Investor Contact**—Janet S. Watson (417-625-5100 ext 2223). **Dirs**—M. F. Chubb Jr., W.L. Gipson, R. D. Hammons, R. C. Hartley, J. Herschend, F. E. Jeffries, R. L. Lamb, J. S. Leon, M. W. McKinney, M. M. Posner. **Transfer Agent & Registrar**—Mellon Investor Services, South Hackensack, NJ. **Incorporated**—in Kansas in 1909. **Empl**— 616. **S&P Analyst:** Michael Infranco/CB

STANDARD &POOR'S
STOCK REPORTS

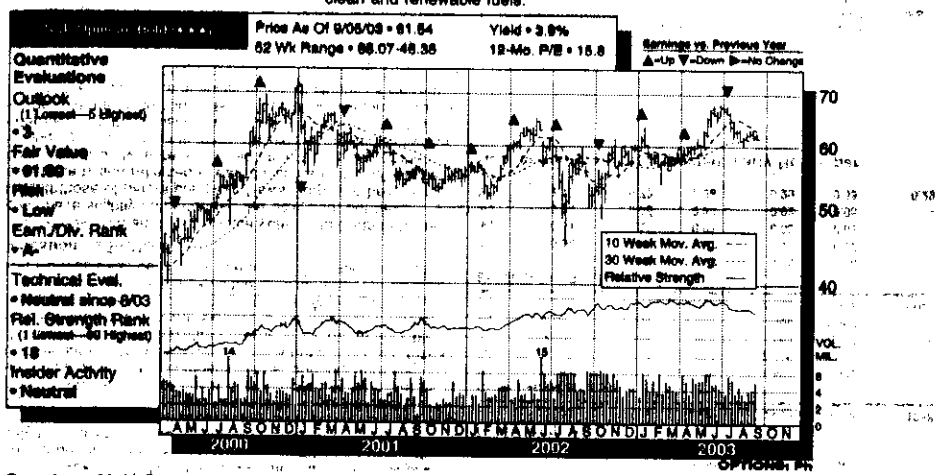
FPL Group

NYSE Symbol **FPL**
In S&P 500

06-SEP-03

Sub-Industry: Electric Utilities

Summary: Through its Florida Power & Light subsidiary, FPL serves more than 4,000,000 customer accounts; through FPL Energy, it produces electricity from clean and renewable fuels.



Overview - 28-AUG-03

After an anticipated 2% increase in 2003 (from 2002's operating EPS of $4.60), we expect an approximate 4% increase in 2004. While a strong first quarter was somewhat offset by a relatively weak second quarter, earnings in 2003 are expected to benefit from acquisition-aided growth at FPL Energy, and, despite the full-year impact of a 7% rate reduction, a modest gain at Florida Power & Light (FP&L). In March 2002, the Florida Public Service Commission approved an agreement that reduced FP&L's annual retail rates by $250 million, effective April 15, 2002; this cut 2002 revenues by about $178 million. On November 1, 2002, FPL completed its acquisition (announced in April 2002) of an 88.2% interest in the New Hampshire-based, 1,161 megawatt Seabrook nuclear facility. The acquisition of the facility is expected to be modestly accretive in 2003, and to add $0.10 to $0.12 a share for each of the following three years. We project Standard & Poor's Core Earnings per share of $4.43 for 2003.

Valuation - 28-AUG-03

We have lowered our opinion on FPL shares to hold from accumulate. With only modest earnings growth expected for the next couple of years, and with a dividend yield that is below the industry average, we believe the shares are fairly valued at around 12X our EPS estimate for 2004, which is in line with the estimated 2004 P/E multiple of electric utility peers. Although the stock has modestly underperformed the S&P Index of Electric Utilities year to date, we expect it to perform roughly in line over the next 12 months. FPL increased its dividend by 3.4% with the March 2003 payment. With the company's dividend payout ratio of 50% well below the industry average, we expect to see similar annual increases in the years to come. However, with the dividend still yielding less than 4%, income oriented investors would, in our view, be more attracted to stocks offering higher yields. Assuming a P/E multiple to our EPS estimate for 2004 similar to the current multiple on our 2003 estimate, we have a 12-month target price of $66.

Key Stock Statistics

S&P EPS Est. 2003	4.90	Tang. Bk. Value/Share	36.36
P/E on S&P Est. 2003	12.6	Beta	0.06
S&P EPS Est. 2004	5.10	Shareholders	36,625
Dividend Rate/Share	2.40	Market cap. (B)	$ 11.5
Shs. outstg. (M)	183.6	Inst. holdings	63%
Avg. daily vol. (M)	0.815		

Value of $10,000 invested five years ago: $ 11,327

Fiscal Year Ending Dec. 31

	2003	2002	2001	2000	1999	1998
Revenues (Million $)						
1Q	2,173	1,843	1,941	1,468	1,412	1,336
2Q	2,459	2,248	2,166	1,870	1,614	1,692
3Q	—	2,353	2,529	2,087	1,892	1,999
4Q	—	2,029	1,839	1,857	1,520	1,631
Yr.	—	8,311	8,475	7,082	6,438	6,661
Earnings Per Share ($)						
1Q	0.99	0.98	0.65	0.71	1.22	0.83
2Q	1.34	1.46	1.30	1.20	0.48	1.02
3Q	E1.86	0.85	1.98	1.84	1.70	1.86
4Q	E0.72	0.73	0.70	0.36	0.71	0.54
Yr.	E4.90	4.01	4.62	4.14	4.07	3.85

Next earnings report expected: mid October

Dividend Data (Dividends have been paid since 1944.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.580	Oct. 18	Nov. 26	Nov. 29	Dec. 16 '02
0.600	Feb. 14	Feb. 26	Feb. 28	Mar. 17 '03
0.600	May. 23	Jun. 04	Jun. 06	Jun. 16 '03
0.600	Aug. 15	Aug. 27	Aug. 29	Sep. 15 '03

Business Summary - 28-AUG-03

FPL Group is the holding company for Florida Power & Light Company and FPL Group Capital.

Florida Power & Light Company provides electricity to about 4.0 million customer accounts in an area covering nearly all of Florida's eastern seaboard, as well as the southern part of the state. The utility's electric revenues by customer class in 2002 were: residential, 55% (56% in 2001, 55% in 2000); commercial, 36% (38%, 38%); industrial, 3% (3%, 3%); and other, 6% (3%, 6%). The company owns and operates four nuclear units, two at Turkey Point and two at St. Lucie.

Capital spending for Florida Power & Light in 2002 totaled about $1.3 billion, versus $1.1 billion in 2001. The company projects capital spending of about $1.37 billion in 2003, $1.48 billion in 2004, and $1.19 billion for 2005.

In March 2002, the Florida Public Service Commission approved a new retail rate agreement (effective April 15, 2002, through 2005) that provided for an annual $250 million (7%) rate reduction in Florida Power & Light's customer base rates and service charges.

Wholly owned FPL Group Capital owns and funds FPL's non-utility operations. In January 1996, it formed FPL Energy, to manage existing non-regulated investments and to pursue new investments in the domestic energy markets.

In November 2002, an FPL Energy subsidiary purchased an 88.23% interest in the Seabrook nuclear facility, located in New Hampshire. FPL's ownership interest consists of 1,024 megawatts of nuclear generated capacity.

As of December 31, 2002, FPL Energy had ownership interest in operating independent power projects with a net generating capacity of 7,250 megawatts (of which 6,700 mw. consisted of ownership interests in operating independent power projects). Fuel sources for these projects in 2002 were: natural gas 44% (46% in 2001); wind 24% (28%); nuclear 14% (nil); oil 11% (15%); hydro 5% (7%); and other 2% (4%).

FPL Energy's capital spending in 2002 was about $2.1 billion, versus $1.98 billion in 2001 and $507 million in 2000. The subsidiary projects capital expenditures of $1.90 billion for 2003, after which capital spending is to drop sharply, to only $85 million in 2004 and $35 million in 2005. The unit expects to add 1,200 megawatts (mw) of new wind generation through 2003, when its production tax credits are scheduled to expire. It also plans to complete construction of five gas-fired power plants with total capacity of about 3,700 mw, bringing its total power generating capacity to 11,500 to 12,000 mw by the end of 2004. FPLI, a subsidiary of FPL Energy, is involved in energy marketing and trading.

In January 2000, FPL formed FPL FiberNet through the transfer of its existing 1,600 miles of fiber-optic lines. At December 31, 2002, the network consisted of about 2,500 route miles. The unit sells its capacity to FPL, and to telephone, cable television, and Internet customers, and other telecommunications companies.

In April 2001, FPL agreed to terminate a merger agreement (announced in July 2000) with Entergy Corp. (ETR), a New Orleans-based energy holding company.

Per Share Data ($) (Year Ended Dec. 31)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Tangible Bk. Val.	34.92	34.18	31.78	30.00	28.32	26.62	24.81	24.08	22.50	21.58
Earnings	4.01	4.62	4.14	4.07	3.85	3.57	3.33	3.16	2.91	2.90
S&P Core Earnings	3.04	3.85	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	2.32	2.24	2.16	2.08	2.00	1.92	1.84	1.76	1.68	2.47
Payout Ratio	58%	48%	52%	51%	52%	54%	55%	56%	58%	107%
Prices - High	66.31	71.62	73.00	61.96	72.56	60.00	46.12	46.50	39.12	41.00
- Low	45.00	51.21	36.37	41.12	56.06	42.62	41.50	34.00	28.87	35.50
P/E Ratio - High	16	16	18	15	19	17	14	15	13	18
- Low	11	11	9	10	15	12	12	11	9	15
Income Statement Analysis (Million $)										
Revs.	8,311	8,475	7,082	6,438	6,661	6,369	6,037	5,592	5,423	5,318
Depr.	962	963	1,032	1,040	1,284	1,061	980	918	724	598
Maint.	NA	NA	NA	NA	NA	NA	NA	NA	NA	347
Fxd. Chgs. Cov.	4.52	4.51	4.55	4.96	NA	3.97	4.01	3.64	3.20	2.96
Constr. Credits	NA	NA	Nil	Nil	Nil	Nil	2.00	15.0	24.0	66.2
Eff. Tax Rate	26.0%	32.7%	32.3%	31.7%	29.6%	33.0%	33.6%	37.3%	37.2%	36.9%
Net Inc.	695	781	704	697	664	618	579	559	519	429
S&P Core Earnings	527	616	NA	NA	NA	NA	NA	NA	NA	NA
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	26,505	23,368	21,022	19,554	17,952	17,820	17,034	16,725	16,390	15,881
Cap. Exp.	1,277	1,544	1,299	861	617	551	488	671	906	1,248
Net Prop.	14,304	11,662	9,934	9,264	8,555	9,354	9,384	9,852	10,203	10,289
Capitalization:										
LT Debt	6,016	5,084	4,202	3,704	2,347	2,949	3,144	3,977	4,050	4,020
% LT Debt	47.4	45.8	42.9	40.8	30.5	36.8	39.0	41.6	47.1	46.4
Pfd.	Nil	Nil	Nil	Nil	226	226	332	340	545	548
% Pfd.	Nil	Nil	Nil	Nil	2.90	2.80	4.10	4.20	6.30	6.30
Common	6,688	6,015	5,593	5,370	5,126	4,845	4,592	4,392	4,197	4,101
% Common	52.6	54.2	57.1	59.2	66.6	60.4	56.9	54.2	48.8	47.3
Total Cap.	14,444	12,629	11,442	10,337	9,159	9,493	10,201	10,299	10,917	10,722
% Oper. Ratio	85.7	87.6	86.3	86.0	86.4	85.5	85.5	84.5	84.5	86.4
% Earn. on Net Prop.	9.5	10.3	12.9	18.2	14.0	13.1	9.1	11.9	8.2	7.2
% Return On Revs.	8.4	9.2	9.9	10.8	10.0	9.7	9.6	9.9	9.6	8.1
% Return On Invest. Capital	9.0	9.6	9.7	11.4	10.7	9.4	8.6	NM	7.8	7.0
% Return On Com. Equity	10.7	13.5	12.8	13.3	13.3	13.1	12.9	12.9	12.5	10.8

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Office—700 Universe Blvd., Juno Beach, FL 33408. Tel—(561) 694-4000. Website—http://www.fpl.com Chrmn, Pres & CEO—L. Hay III. VP-Fin & CFO—M. P. Dunfurst. Secy—D. P. Coyle. Investor Contact—Art Shannon (561-694-4697). Dirs—H. J. Arnelle, S. B. Barret, R. M. Beall II, J. H. Brown, J. L. Camaren, A. M. Codina, W. D. Dover, A. W. Dreyfoos Jr., P. J. Evanson, L. Hay III, F. V. Malek, P. R. Tregurtha, P. G. Zara. Transfer Agent & Registrar—Equiserve, Providence, RI. Incorporated—in Florida in 1984. Empl— 11,577. S&P Analyst: Justin McCann/CB/MF

STANDARD &POOR'S

STOCK REPORTS

MGE Energy

NASDAQ Symbol **MGEE**

06-SEP-03

Sub-Industry: Electric Utilities

Summary: The principal subsidiary of this public utility holding company is Madison Gas & Electric, which generates and distributes electricity and distributes natural gas in Wisconsin.

Quantitative Evaluations

Outlook (1 Lowest—5 Highest): NA

Fair Value: NA

Risk: Low

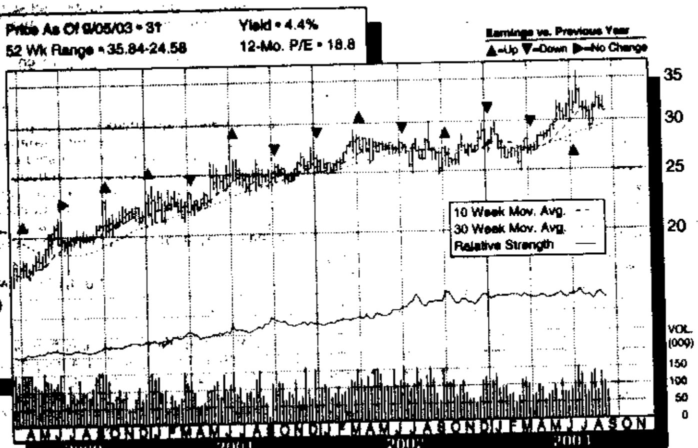
Earn./Div. Rank: B+

Technical Eval.: Bullish since 8/03

Rel. Strength Rank (1 Lowest—99 Highest): 22

Insider Activity: Neutral

Price As Of 9/05/03 • 31 | 52 Wk Range • 35.84-24.58 | Yield • 4.4% | 12-Mo. P/E • 18.8



Business Profile - 10-JUL-03

In March 2003, MGEE registered a shelf offering covering up to $200 million in medium-term notes to be offered from time to time. Net proceeds would be earmarked for financing capital expenditures and future acquisitions, reduction of debt, and for other corporate purposes. In August 2002, Madison Gas & Electric adopted a holding company format, with each common share exchanged for a common share of MGE Energy, Inc. MGEE said it believed the holding company structure will let it raise capital in financial markets, in order to [illegible] power plants to meet customer needs. It planned to continue to focus on the utility business in its local communities.

Operational Review - 10-JUL-03

Total operating revenues for the first quarter of 2003 advanced [illegible]% year to year, as electric revenues rose 10% [illegible] higher [illegible] sales and 3.9% higher average [illegible] revenues [illegible] up 54% (on colder weather and [illegible] higher average natural gas prices). However, profitability [illegible] affected by an increase in fuel costs, [illegible] from substantially higher gas prices; also, outages at the coal-fired Columbia Energy Center required the company to rely more on its gas-fired plants, which cost more to operate. After taxes at 38.2%, versus 36.9%, net income fell 15%, to $9.4 million ($0.53 a share) from $11.0 million ($0.64).

Stock Performance - 05-SEP-03

In the past 30 trading days, MGEE's shares have declined 6.60%, compared to a 2% rise in the S&P 500. Average trading volume for the past five days was 19,996 shares, compared with the 40-day moving average of 21,576 shares.

Key Stock Statistics

Dividend Rate/Share	1.36	Shareholders	18,000
Shs. outstg. (M)	17.9	Market cap. (B)	$0.555
Avg. daily vol. (M)	0.021	Inst. holdings	23%
Tang. Bk. Value/Share	13.29		
Beta	0.05		

Value of $10,000 invested five years ago: $ 18,224

Fiscal Year Ending Dec. 31

	2003	2002	2001	2000	1999	1998
Revenues (Million $)						
1Q	128.5	98.27	122.0	94.54	79.53	75.12
2Q	82.65	74.00	70.28	64.18	57.16	54.56
3Q	—	79.43	65.93	71.96	64.48	57.76
4Q	—	95.39	75.49	103.4	72.86	62.30
Yr.	—	347.1	333.7	324.1	274.0	249.8
Earnings Per Share ($)						
1Q	0.53	0.64	0.58	0.82	0.56	0.52
2Q	0.35	0.26	0.22	0.15	0.15	0.15
3Q	—	0.60	0.36	0.51	0.36	0.36
4Q	—	0.19	0.37	0.29	0.36	0.34
Yr.	—	1.69	1.62	1.67	1.48	1.38

Next earnings report expected: early November

Dividend Data (Dividends have been paid since 1909.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.336	Nov. 15	Nov. 26	Dec. 01	Dec. 15 '02
0.336	Feb. 28	Mar. 04	Mar. 01	Mar. 15 '03
0.336	May. 20	May. 28	Jun. 01	Jun. 15 '03
0.336	Aug. 15	Aug. 27	Sep. 01	Sep. 15 '03

STANDARD &POOR'S STOCK REPORTS

MGE Energy, Inc.

06-SEP-03

Business Summary - 10-JUL-03

MGE Energy is a holding company, formed in August 2002, for Madison Gas and Electric, a Wisconsin-based public utility that said it expects its electric and gas sales to increase 1% to 2% annually through the end of 2007. MGEE also anticipates peak demand growth of approximately 3% through 2007. The company forecasts that its service territory will remain well insulated against economic downturns. MGEE believes favorable distribution costs, a low percentage of industrial customers, and lower risk of being unable to recover previous investments are factors that should contribute to its success in a deregulated electric industry.

Madison Gas & Electric generates, transmits and distributes electricity to nearly 130,000 customers throughout a 250 square mile area of Dane County. In addition, the company transports and distributes natural gas to more than 126,000 customers across 1,375 square miles of service territory in seven counties.

In 2002, residential and commercial electric service revenues accounted for 36% and 48% of total electric revenues, respectively. The remainder of 2002 electric revenues were derived from industrial sales, 8%; sales to public authorities including the University of Wisconsin, 7%; and sales to other utilities and other 3%. Electric operations comprised 65% of the company's 2002 operating revenues.

Residential and commercial customers contributed 58% and 37% of total 2002 gas revenues, respectively. Gas operations accounted for 35% of the company's operating revenues. Transportation service accounted for 3% of total 2002 gas revenues.

MGEE owns a 22% interest in the Columbia Energy Center, Columbia, with two 512 megawatt units, uses coal from Wyoming and Montana coal fields.

The company and the University of Wisconsin (UW) are continuing to work on a proposal to build a natural gas-fired cogeneration plant, expected to cost $180 million. The plant will help to meet the future needs of UW and MGEE customers. The facility is expected to come on line in 2005.

In December 2001, MGEE purchased the Prairie du Chien-area natural gas system for about $3.9 million.

Capital expenditures for 2003 through 2007 are expected by the company to average about $46 million per year.

The company sold its 17.8% ownership interest in the Kewaunee Nuclear Power Plant to Wisconsin Public Service Corp. (WPSC) in September 2001. MGEE received a cash payment from WPSC upon closing that consisted of Kewaunee's book value ($8.9 million) plus the book value of other related assets.

Per Share Data ($) (Year Ended Dec. 31)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Tangible Bk. Val.	12.86	12.82	12.00	11.43	11.27	11.19	11.07	11.94	11.71	11.43
Earnings	1.69	1.63	1.67	1.48	1.38	1.40	0.40	1.49	1.53	1.51
S&P Core Earnings	1.41	1.29	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	1.34	1.33	1.32	1.31	1.30	1.29	1.27	1.26	1.25	1.23
Payout Ratio	79%	81%	79%	88%	94%	92%	NM	85%	82%	81%
Prices - High	30.14	27.80	23.66	23.87	23.75	23.75	27.50	23.33	23.33	24.50
- Low	24.58	20.87	18.75	18.37	20.62	18.50	19.62	20.33	20.66	20.16
P/E Ratio - High	18	17	14	16	17	17	69	16	15	16
- Low	16	13	10	11	15	13	49	14	14	13
Income Statement Analysis (Million $)										
Revs.	347	334	324	274	250	265	253	249	245	244
Depr.	29.4	35.7	35.1	36.2	33.2	28.3	25.5	24.8	22.4	21.8
Maint.	11.7	14.5	16.5	13.3	15.2	12.7	12.4	11.9	12.4	13.0
Fxd. Chgs. Cov.	4.82	3.85	3.96	3.92	4.22	4.35	2.73	4.28	3.26	3.00
Constr. Credits	NA	0.60	0.52	0.46	0.19	0.04	0.61	0.86	0.21	0.01
Eff. Tax Rate	39.1%	36.6%	38.0%	34.1%	32.5%	34.6%	41.8%	37.3%	38.2%	36.9%
Net Inc.	29.2	27.4	27.4	25.7	22.2	22.5	6.43	24.0	25.0	24.7
S&P Core Earnings	24.2	21.7	NA	NA	NA	NA	NA	NA	NA	NA
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	861	746	856	863	821	701	740	715	[illegible]	671
Cap. Exp.	78.3	42.0	73.6	51.0	30.8	21.6	21.9	19.2	28.4	[illegible]
Net Prop.	498	405	446	398	374	293	305	367	372	[illegible]
Capitalization:										
LT Debt	192	[illegible]	163	149	161	121	129	129	131	[illegible]
% LT Debt	45.8	42.2	47.8	44.5	46.9	42.0	41.6	40.1	40.2	[illegible]
Pfd.	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	5.10	5.40
% Pfd.	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	1.80	1.70
Common	227	216	200	186	182	181	179	193	189	186
% Common	54.2	57.8	52.2	55.5	53.1	58.0	58.2	59.9	58.2	59.5
Total Cap.	487	466	436	386	397	368	366	[illegible]	365	379
% Oper. Ratio	88.6	87.0	87.6	86.1	86.1	86.3	87.6	86.4	86.1	86.0
% Earn. on Net Prop.	12.5	8.2	9.5	8.4	8.9	10.2	8.6	9.2	9.2	9.3
% Return On Revs.	8.4	8.2	8.4	8.7	8.9	8.5	2.5	9.6	10.2	10.1
% Return On Invest. Capital	9.0	9.4	10.1	9.2	11.6	8.9	7.9	9.1	9.9	9.4
% Return On Com. Equity	13.2	13.1	14.2	12.9	12.2	12.5	3.5	12.6	13.8	13.2

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Office—133 S. Blair Street, P.O. Box 1231, Madison, WI 53708-1231. Tel—(608) 252-7000. Website—http://www.mge.com Chrmn, Pres & CEO—[illegible]. Vice Chrmn—D. C. Mebane. VP-CFO, Secy & Investor Contact—Terry A. Hanson (608-252-4744). VP & Treas—J. C. Newman. Dirs—R. E. Blaney, F. C. Hastings, D. C. Mebane, R. M. Millner, J. R. Nevin, D. K. Sollenberger, H. L. Swenson, G. J. Wolter. Transfer Agent & Registrar—Continental Stock Transfer & Trust Co., NYC. Incorporated—in Wisconsin in 1896. Empl— 663. S&P Analyst: J. J. Schemitsch/MF/JWP

Item 20, page 8

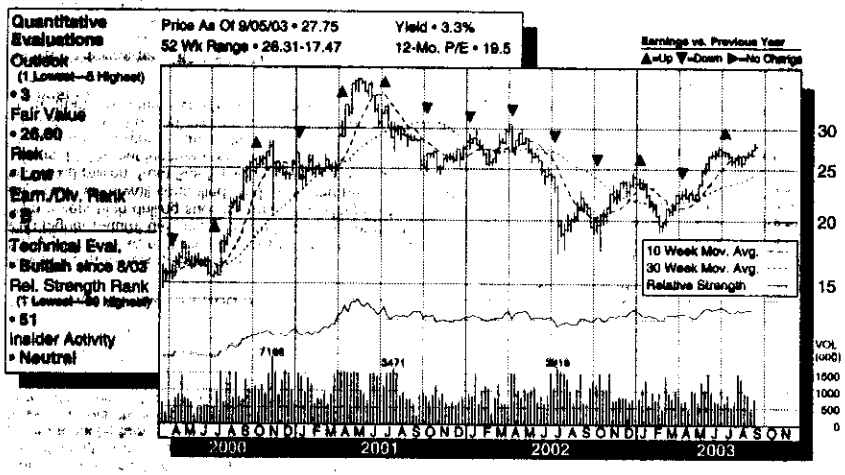
PNM Resources

NYSE Symbol **PNM**
In S&P MidCap 400

STOCK REPORTS

06-SEP-03 Sub-Industry: Electric Utilities

Summary: This company operates electric and gas utilities in New Mexico through Public Service Company of New Mexico, and sells wholesale power in the western U.S.



Business Profile - 18-JUL-03

In April 2003, PNM reiterated its estimate of 2003 EPS from continuing operations of $1.80 to $2.05 (excluding one time gains and charges). A planned maintenance outage shut down one unit of the company's San Juan Generating Station during much of the first quarter, and other San Juan units experienced intermittent forced outages in February and March. The restricted availability of the San Juan plant due to those outages added about $8.5 million to purchased power expense during the quarter. In January, New Mexico regulators approved an agreement to reduce PNM's electric rates by $93 million in September 2003 and another $14 million in 2005, with rates then frozen until 2008. Also in January, the company began delivering power to U.S. Navy facilities in San Diego; the contract, which expires in March 2005, is expected to produce annual revenues of $42 million.

Operational Review - 18-JUL-03

Operating revenues in the three months ended March 31, 2003, rose 29%, year to year, on a 26% gain in electric revenues, coupled with a 34% gain in gas revenues. A long term power sales contract with the U.S. Navy, increased sales under an existing contract and higher market prices aided revenue growth. Total operating expenses were up 32%, primarily on significant increases in the cost of energy sold; gross profit was up 2.3%. With a 21% climb in interest charges and net other expense of $4.3 million, versus income of $7.4 million, income fell 56%, to $10,894,000 ($0.27 a share, after preferred dividends), from $24,949,000 ($0.63). Results in the 2002 period exclude a credit of $0.95 a share from an accounting change.

Stock Performance - 05-SEP-03

In the past 30 trading days, PNM's shares have increased 6%, compared to a 2% rise, in the S&P 500. Average trading volume for the past five days was 199,975 shares, compared with the 40-day moving average of 166,221 shares.

Key Stock Statistics

Dividend Rate/Share	0.92	Shareholders	15,046
Shs. outstg. (M)	40.2	Market cap. ($)	$ 1.1
Avg. daily vol. (M)	0.174	Inst. holdings	66%
Tang. Bk. Value/Share	26.68		
Beta	0.63		

Value of $10,000 invested five years ago: $ 16,520

Fiscal Year Ending Dec. 31

	2003	2002	2001	2000	1999	1998
Revenues (Million $)						
1Q	387.7	314.0	736.5	321.3	272.6	329.8
2Q	340.2	284.6	666.1	273.2	261.4	309.0
3Q	—	269.4	621.9	466.5	340.6	194.8
4Q	—	301.0	327.6	461.5	282.8	258.0
Yr.	—	1,169	2,352	1,811	1,158	1,092
Earnings Per Share ($)						
1Q	0.28	0.63	1.66	0.66	0.56	0.61
2Q	0.44	0.28	1.24	0.45	0.44	0.39
3Q	—	0.46	0.89	1.16	0.82	0.83
4Q	—	0.36	0.11	0.55	0.41	0.44
Yr.	—	1.61	3.77	2.56	1.98	2.06

Next earnings report expected: late October

Dividend Data (Dividends have been paid since 1996.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.220	Oct. 01	Oct. 31	Nov. 04	Nov. 15 '02
0.220	Dec. 10	Jan. 30	Feb. 03	Feb. 14 '03
0.230	Feb. 19	Apr. 30	May. 02	May. 16 '03
0.230	Jul. 15	Jul. 30	Aug. 01	Aug. 15 '03

PNM Resources, Inc.

STANDARD & POOR'S
STOCK REPORTS

06-SEP-03

Business Summary - 18-JUL-03

PNM Resources is the holding company for Public Service Company of New Mexico, a utility involved in the generation, transmission, distribution and sale of electricity and natural gas in New Mexico; it also sells power in the wholesale market in the western U.S. In December 2001, the company reorganized its operations into a holding company, PNM Resources, Inc., creating two subsidiaries to separate deregulated activities from regulated activities, as required by the Electric Utility Industry Restructuring Act. The company operates three business units: utility operations; generation and marketing operations; and unregulated operations.

Utility operations include both electric and natural gas offerings. The company provides jurisdictional retail electric service to a large area of north central New Mexico. At December 31, 2002, PNM had an average of 384,478 retail electric customers. The company's gas operations market and distribute natural gas to most of the major communities across New Mexico, serving an average of 443,396 customers at 2002 year end.

PNM's generation and marketing operations serve four principal markets. The first market consists of sales to the company's utility operations to cover all of its jurisdictional electric demand. The second segment focuses on sales to firm requirements wholesale customers. The third market consists of contract sales to third parties, with PNM committing itself to providing a specified amount of megawatts (MW) in a given time period. The fourth market consists of energy sales from excess capacity made on an hourly basis at varying spot market prices. As of December 31, 2002, total net generation capacity of facilities owned or leased by the company was 1,742 MW, with the San Juan Generating Station at 765 MW; Four Corners 192 MW; Palo Verde Nuclear Generating Station 390 MW; Reeves Station 154 MW; Afton 141 MW; Lordsberg 80 MW; and Las Vegas Station 20 MW. PNM also purchases power in the market under contracts.

Unregulated operations are conducted through wholly owned Avistar. In July 2001, Avistar wound down all operations except for its Reliadigm business unit, which provides maintenance solutions to the electric power industry. Avistar had previously divested its Energy Partners business, and had liquidated Axon Field services and Pathways integration, recording charges of $13.1 million to reflect these activities and the impairment of its Avistar investments.

In January 2003, PNM filed a gas general rate case, which asks the PRC to approve an increase in the service fees charged to its 441,000 natural gas customers. The proposal would increase both the set monthly service fee and the charge tied to monthly usage. Those fees are separate from the cost of gas charged to customers. The proposed cost of service rate increase of $37.6 million is designed to provide PNM's gas utility an opportunity to earn a 12% return on equity; the company's return on equity from its gas business was below 3% as of December 2002.

Per Share Data ($) (Year Ended Dec. 31)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Tangible Bk. Val.	24.90	22.62	23.63	21.79	20.61	19.25	18.04	16.80	15.09	13.29
Earnings	1.61	3.77	2.53	2.01	2.28	1.92	1.72	1.72	1.77	-1.64
S&P Core Earnings	0.88	3.37	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	0.86	0.80	0.80	0.80	0.77	0.53	0.36	Nil	Nil	Nil
Payout Ratio	53%	21%	32%	40%	34%	33%	21%	Nil	Nil	Nil
Prices - High	30.76	37.80	26.31	21.50	24.75	23.66	20.50	18.25	13.62	15.67
- Low	17.25	22.87	14.62	14.84	17.37	15.75	17.25	12.12	11.00	9.75
P/E Ratio - High	19	10	11	11	11	12	12	11	8	NM
- Low	11	6	6	7	8	8	10	7	6	NM
Income Statement Analysis (Million $)										
Revs.	1,169	2,352	1,611	1,158	1,092	1,135	883	808	906	874
Depr.	102	96.9	93.1	92.7	88.1	82.7	78.1	80.9	74.1	77.3
Maint.	NA	NA	NA	NA	51.7	52.6	49.7	55.8	61.4	56.8
Fxd. Chgs. Cov.	2.56	4.53	3.65	2.70	3.36	3.24	3.04	2.99	2.53	NM
Constr. Credits	NA	NA	NA	Nil	Nil	Nil	Nil	Nil	0.27	0.42
Eff. Tax Rate	33.9%	35.0%	42.4%	34.7%	37.2%	36.6%	36.5%	28.6%	35.5%	NM
Net Inc.	64.3	150	101	79.6	95.1	81.0	72.6	75.6	80.3	-61.5
S&P Core Earnings	34.7	133	NA	NA	NA	NA	NA	NA	NA	NA
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	3,199	3,017	2,774	2,664	3,116	2,881	2,490	2,467	2,586	2,580
Cap. Exp.	240	268	147	98.3	129	128	88.9	107	119	101
Net Prop.	1,869	1,788	1,621	1,567	2,116	1,878	1,583	1,574	1,667	1,704
Capitalization:										
LT Debt	960	954	954	968	1,009	714	714	729	752	968
% LT Debt	49.8	51.5	50.4	52.3	53.2	46.6	48.3	45.9	51.5	60.0
Pfd.	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	77.0	83.4
% Pfd.	0.65	0.69	0.68	0.68	0.80	0.80	0.80	0.80	5.30	5.20
Common	974	885	925	887	860	804	754	703	631	555
% Common	49.5	47.8	48.9	47.0	45.4	52.5	45.8	44.2	43.2	34.8
Total Cap.	2,146	2,028	2,118	2,105	2,082	1,710	1,654	1,589	1,609	1,721
% Oper. Ratio	92.3	90.2	93.0	91.1	84.2	89.6	85.8	86.0	83.3	84.7
% Earn. on Net Prop.	5.6	13.1	8.3	7.5	6.8	6.7	4.6	6.9	8.9	7.4
% Return On Revs.	5.5	6.4	6.3	6.9	8.7	7.1	8.2	9.3	8.9	NM
% Return On Invest. Capital	6.4	10.4	7.9	7.2	8.3	10.9	7.9	11.5	9.1	1.4
% Return On Com. Equity	6.4	16.6	11.1	9.0	11.3	10.3	9.8	10.6	12.4	NM

Data as orig. reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. div(s). Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office—Alvarado Square, Albuquerque, NM 87158. Tel—(505) 241-2700. Website—http://www.pnm.com Chmn, Pres & CEO—J. E. Sterba. SVP & CFO—J. R. Loyack. SVP & Secy—P. T. Ortiz. Investor Contact—Barbara Baisley. Dirs—R. G. Armstrong, R. M. Chavez, J. A. Godwin, B. F. Montoya, M. T. Pacheco, T. F. Robbins, R. M. Price, P. F. Roth, J. E. Sterba. Transfer Agent & Registrar—Co.'s office. Incorporated—in New Mexico in 2000. Empl— 2,656. S&P Analyst: Michael Intranco/CB/TS

Item 20, page 9

STANDARD &POOR'S

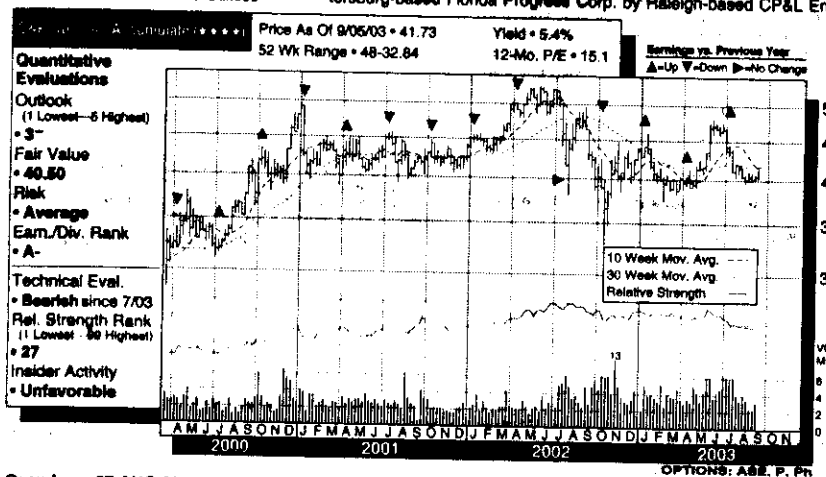
STOCK REPORTS

Progress Energy

NYSE Symbol **PGN**
In S&P 500

06-SEP-03 **Sub-Industry:** Electric Utilities

Summary: This holding company was renamed after the acquisition of St. Petersburg-based Florida Progress Corp. by Raleigh-based CP&L Energy.



OPTIONS: ASE, P, Ph

Overview - 27-AUG-03

After an anticipated 4% decline in 2003 EPS from ongoing operations (from 2002's ongoing operating EPS of $3.81), we expect operating EPS to grow about 5% in 2004. Our projection of a decline in 2003 primarily reflects the issuance of 14.7 million shares in November 2002; the 6.6% increase in shares should dilute 2003 EPS by about $0.25. Net proceeds of about $600 million were used to reduce debt. In the first half of 2003, PGN earned $1.46 a share from ongoing operations. If the IRS decides to set new standards related to synthetic fuel production, the company will have to determine whether it should continue production, which currently results in about $0.70 a share in annual tax credits. Although 2002 ongoing operating EPS benefited by about $0.45 from the elimination of goodwill amortization, it excluded net one-time charges of $1.38. The sale of North Carolina Natural Gas (NCNG) was expected to close in the third quarter, with net proceeds to be used to pay down debt. The Florida Progress acquisition more than doubled the company's customer base, to 2.5 million, and its annual revenues, to about $8 billion. We estimate 2003 Standard and Poor's Core Earnings per share at $3.67.

Valuation - 27-AUG-03

The shares have declined about 7% year to date. We believe this reflects uncertainties surrounding an IRS review of synthetic fuel tax credits. Although we believe a worst case scenario (in which PGN found the costs related to meeting new standards too high to continue production) would result in the loss of about $0.70 a share in tax credits, the shares are still trading at under 13X our 2004 EPS estimate as adjusted for the impact of that scenario. This worst case P/E multiple is only slightly above the estimated average 2004 P/E multiple for PGN's electric utility peers, and with what we consider to be a secure dividend yielding over 5.5%, we consider the stock attractive for both income and price appreciation. The attraction of the dividend yield (above the average of PGN's peers) has been enhanced by the cut in the tax rate on dividends, from the earned rate to a 15% rate.

Key Stock Statistics

S&P EPS Est. 2003	3.65	Tang. Bk. Value/Share	13.35
P/E on S&P Est. 2003	11.4	Beta	0.08
S&P EPS Est. 2004	3.85	Shareholders	72,380
Dividend Rate/Share	2.24	Market cap. (B)	$ 10.2
Shs. outstg. (M)	243.4	Inst. holdings	54%
Avg. daily vol. (M)	0.582		

Value of $10,000 invested five years ago: $ 12,161

Fiscal Year Ending Dec. 31

	2003	2002	2001	2000	1999	1998
Revenues (Million $)						
1Q	2,016	1,767	1,908	877.1	782.9	752.3
2Q	2,013	1,959	2,316	892.3	782.6	736.1
3Q	—	2,277	2,331	1,084	1,025	946.2
4Q	—	1,922	1,907	1,265	806.1	695.4
Yr.	—	7,945	8,461	4,119	3,358	3,130
Earnings Per Share ($)						
1Q	0.84	0.68	0.77	0.86	0.83	0.90
2Q	0.88	0.89	0.96	0.70	0.49	0.48
3Q	E1.44	0.72	1.77	1.03	0.97	1.38
4Q	E0.75	0.86	-0.42	-0.07	0.51	0.42
Yr.	E3.85	2.53	2.09	3.03	2.85	2.75

Next earnings report expected: mid October

Dividend Data (Dividends have been paid since 1937.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.545	Sep. 20	Oct. 08	Oct. 10	Nov. 01 '02
0.560	Dec. 11	Jan. 08	Jan. 10	Feb. 01 '03
0.560	Mar. 19	Apr. 08	Apr. 10	May. 01 '03
0.560	May. 14	Jul. 08	Jul. 10	Aug. 01 '03

Progress Energy, Inc.

Business Summary - 27-AUG-03

The company (formerly CP&L Energy) changed its name to Progress Energy, Inc., in December 2000.

On November 30, 2000, the company acquired Florida Progress Corp. (FPC), for about $5.4 billion in cash (65%) and stock (35%), plus the assumption of $2.7 billion of FPC debt. FPC was the holding company for Florida Power (now operating as Progress Energy Florida), which provides electricity to about 1.5 million customers in central, northern and Gulf Coast Florida.

CP&L Energy was formed in June 2000, as the holding company for Carolina Power & Light Co. (now operating as Progress Energy Carolinas), a utility providing electricity to 1.3 million customers in eastern and western North Carolina and central South Carolina, and, after the 1999 acquisition of North Carolina Natural Gas (in exchange for about $354 million in stock), natural gas to 178,000 customers in eastern and southern North Carolina. In October 2002, PGN announced an agreement to sell North Carolina Natural Gas for $425 million in cash. The sale was expected to close in mid-2003.

Following the FPC acquisition, the holding company was organized into five primary units: Energy Delivery, which oversees transmission and distribution operations for Carolina Power & Light and Florida Power; Energy Supply, which oversees generation operations, energy trading and system planning; Progress Energy Ventures, which is involved in merchant generation ownership, wholesale energy marketing and trading operation, natural gas exploration and production, and coal fuel extraction, manufacturing and delivering; Energy Services, which has overseen NCNG and energy management services; and a Service Company to support the combined company.

In 2002, the utility operations accounted for 83.1% of PGN's consolidated revenues (81.1% in 2001), and the diversified businesses, 16.9% (18.9%).

Carolina Power & Light received authorization from the North Carolina Utility Commission (in December 1998) and the South Carolina Public Service Commission (January, 1999) to accelerate the amortization of its nuclear generating assets, effective from January 1, 2000, through 2004. Annual amortization will range from $106 million to $150 million, for a total of $750 million.

Company subsidiaries include Progress Telecom, a super-regional carrier with a network that stretches across five states, from New York to Miami, FL, with gateways to Latin America; Caronet, which provides fiber-optic telecommunications services; and Progress Rail Services, which supplies railroad and transit system products and services. PGN also has a 100% interest in Strategic Resource Solutions (SRS), which specializes in facilities and energy management software, systems and services.

Per Share Data ($) (Year Ended Dec. 31)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Tangible Bk. Val.	12.43	10.58	7.48	19.43	19.20	18.18	17.16	16.36	15.95	15.86
Earnings	2.53	2.64	3.03	2.55	2.75	2.66	2.66	2.48	2.03	2.10
S&P Core Earnings	2.04	2.59	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	2.18	2.12	2.06	2.00	1.94	1.88	1.82	1.76	1.70	1.64
Payout Ratio	86%	80%	68%	78%	71%	71%	68%	71%	84%	78%
Prices - High	52.70	49.25	49.37	47.87	49.62	42.68	38.75	34.62	30.00	34.62
- Low	32.64	36.78	28.25	29.25	39.18	32.75	33.75	26.12	22.50	27.00
P/E Ratio - High	21	19	16	19	18	16	15	14	15	16
- Low	13	15	9	11	14	12	13	11	11	13
Income Statement Analysis (Million $)										
Revs.	7,945	8,461	4,119	3,358	3,130	3,024	2,996	3,007	2,877	2,895
Depr.	820	1,090	740	496	487	482	387	364	386	414
Maint.	NA	NA	NA	NA	NA	NA	NA	197	207	235
Fxd. Chgs. Cov.	1.64	1.75	2.60	4.23	4.50	4.25	4.13	3.67	3.44	3.21
Constr. Credits	8.13	18.0	20.7	11.5	6.82	4.92	6.42	8.50	9.50	15.0
Eff. Tax Rate	NM	NM	29.8%	40.3%	39.2%	37.6%	40.8%	39.2%	35.0%	35.4%
Net Inc.	552	542	478	382	399	386	391	373	313	346
S&P Core Earnings	445	532	NA	NA	NA	NA	NA	NA	NA	NA
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	23,021	22,641	21,028	12,233	10,797	10,475	10,197	9,822	9,548	9,330
Cap. Exp.	2,109	1,216	950	765	527	450	457	344	301	389
Net Prop.	12,541	12,445	11,677	7,257	6,300	6,294	6,400	6,329	6,349	6,432
Capitalization:										
LT Debt	9,840	9,577	5,963	3,029	2,614	2,416	2,528	2,610	2,531	2,585
% LT Debt	59.6	61.5	52.4	46.6	45.6	45.6	47.1	49.0	48.1	49.2
Pfd.	Nil	Nil	Nil	59.4	59.4	59.4	144	144	144	144
% Pfd.	Nil	Nil	Nil	0.91	1.06	1.10	2.70	2.70	2.70	2.70
Common	6,677	6,004	5,424	3,413	2,949	2,819	2,690	2,575	2,586	2,632
% Common	40.4	38.5	47.6	52.5	52.4	53.2	50.2	48.3	49.2	49.1
Total Cap.	17,656	17,241	13,476	8,337	7,514	7,239	7,420	7,288	7,141	7,210
% Oper. Ratio	85.4	83.5	87.1	82.4	79.3	80.6	82.6	82.3	84.7	83.8
% Earn. on Net Prop.	8.9	10.3	7.6	12.1	10.2	8.9	8.1	8.4	7.0	7.3
% Return On Revs.	6.9	6.4	11.6	11.4	12.8	12.8	13.1	12.4	10.9	12.0
% Return On Invest. Capital	7.2	9.2	7.1	7.3	7.8	7.7	7.8	8.0	7.1	9.1
% Return On Com. Equity	8.7	9.4	10.8	11.9	13.7	13.9	14.5	14.1	11.6	13.0

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office—410 South Wilmington St., Raleigh, NC 27601-1748. Tel—(919) 546-6111. Website—http://www.progress-energy.com Chrmn & CEO—W. Cavanaugh III. Pres & COO—R. B. McGehee. EVP & CFO—P. M. Scott III. EVP & Secy—W. D. Johnson. Investor Contact—Robert F. Drennan Jr. (919-546-7474). Dirs—E. B. Borden, J. E. Bostic, Jr., D. L. Burner, W. Cavanaugh III, C. W. Coker, R. L. Daugherty, W. D. Frederick Jr., W. O. McCoy, E. M. McKee, J. H. Mullin III, R. A. Nunis, H. Stichweh, J. T. Wilson, J. G. Warner. Transfer Agent & Registrar—EquiServe Trust Co., Providence, RI. Incorporated—in North Carolina in 1908. Empl—10,200. S&P Analyst: Justin McCann/PMW/MF

Southern Co.

NYSE Symbol **SO**
In S&P 500

06-SEP-03

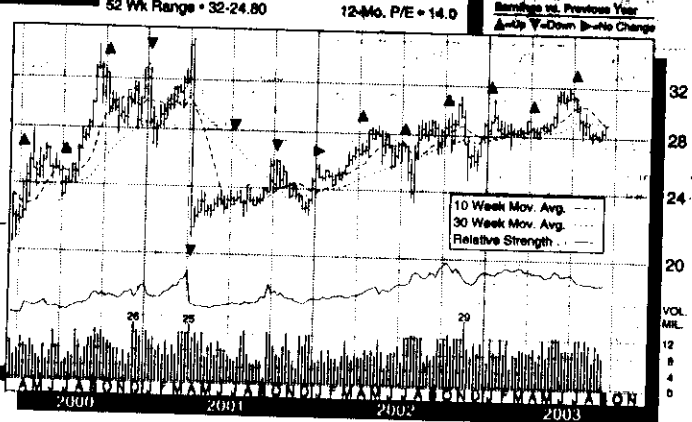
Sub-Industry: Electric Utilities

Summary: This Atlanta-based energy holding company, which spun off its Mirant subsidiary in April 2001, is one of the largest U.S. electricity producers.

S&P Opinion: Hold (★★★)

Price As Of 9/05/03 • 26.97 | Yield • 4.8%
52 Wk Range • 32-24.80 | 12-Mo. P/E • 14.0

Quantitative Evaluations
Outlook (1 Lowest—5 Highest)
• 4
Fair Value
• 28.80
Risk
• Low
Earn./Div. Rank
• A-
Technical Eval.
• Bearish since 7/03
Rel. Strength Rank (1 Lowest—99 Highest)
• 26
Insider Activity
• Neutral



OPTIONS: CBOE

Overview - 29-MAY-03

We expect 2003 EPS about equal to 2002's EPS of $1.85, which was aided by $0.05 from the weather and $0.06 from one-time (mostly tax related) items. Our 2003 estimate excludes an expected second quarter one-time gain of $0.12 for a settlement related to a terminated power purchase agreement. After its 2001 spinoff of Mirant, SO has focused on its five regulated utilities, its unregulated generation and wholesale marketing operations in the Southeast, and its unregulated energy-related retail businesses. With long-term contracts reducing risk, we expect the wholesale power unit to increase its $100 million income in 2000 to over $200 million by 2005. Over the same period, income from unregulated retail units is expected to grow five-fold, to about $50 million. With the utilities seeing customer growth of 2% and demand growth of 3%, we expect SO to average annual EPS growth of more than 5% over the long term, aided by 15% growth from its expanding wholesale operations. We estimate 2003 Standard & Poor's Core Earnings per share at $1.65.

Valuation - 29-MAY-03

Having outperformed electric utility peers in 2002, the stock has slightly underperformed thus far in 2003. At a recent level of about 17X our EPS estimate for 2003, the shares continue to trade at a distinct premium to those of SO's peers (with an approximate P/E multiple of 13). We would not accumulate the shares at current levels, but we believe the premium is justified by the relative predictability of SO's earnings and dividend stream (with an S&P Earnings/Dividend ranking of A-) and its solid A- credit rating, a couple of notches above the industry average. The company increased its dividend 2.2% with the September 2002 payment, and with a payout ratio (74% of 2002 EPS) within the targeted range of 70% to 75%, income-oriented investors should expect future annual dividend increases in the 2% to 3% range, or at approximately one-half of SO's anticipated EPS growth rate of about 5%. Based on the company's low risk profile, and with the tax rate on dividends having been cut from the earned rate to 15%, we would hold existing positions in the shares.

Key Stock Statistics

S&P EPS Est. 2003	1.85	Tang. Bk. Value/Share	12.22
P/E on S&P Est. 2003	15.7	Beta	-0.45
S&P EPS Est. 2004	1.95	Shareholders	141,784
Dividend Rate/Share	1.40	Market cap. (B)	$ 21.1
Shs. outstg. (M)	728.5	Inst. holdings	36%
Avg. daily vol. (M)	1.644		

Value of $10,000 invested five years ago: NA

Fiscal Year Ending Dec. 31

	2003	2002	2001	2000	1999	1998
Revenues (Million $)						
1Q	2,553	2,214	2,270	2,052	2,442	2,514
2Q	2,859	2,631	2,561	2,522	2,791	2,913
3Q	—	3,248	3,165	3,198	3,737	3,457
4Q	—	2,457	2,200	2,294	2,616	2,519
Yr.	—	10,549	10,200	10,066	11,585	11,403
Earnings Per Share ($)						
1Q	0.41	0.32	0.26	0.39	0.32	0.35
2Q	0.59	0.46	0.40	0.52	0.46	0.39
3Q	E0.77	0.83	0.79	0.95	0.90	0.74
4Q	E0.18	0.23	0.16	0.16	0.19	-0.08
Yr.	E1.85	1.85	1.61	1.82	1.86	1.40

Next earnings report expected: late October

Dividend Data (Dividends have been paid since 1948.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.343	Oct. 21	Oct. 31	Nov. 04	Dec. 06 '02
0.343	Jan. 16	Jan. 30	Feb. 03	Mar. 06 '03
0.343	Apr. 21	May. 01	May. 05	Jun. 06 '03
0.350	Jul. 21	Jul. 31	Aug. 04	Sep. 06 '03

Item 20. page 11

The Southern Company

06-SEP-03

Business Summary - 30-MAY-03

The Southern Company is one of the largest U.S. producers of electricity.

With nearly 35,000 megawatts of generating capacity, this Atlanta-based utility holding company serves approximately 4 million customers in the Southeast through five integrated subsidiaries: Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Savannah Electric & Power. The Southern Power subsidiary serves both the utility subsidiaries and the wholesale power market.

SO's electric revenues accounted for 93.8% of consolidated revenues in 2002 (94.7% in 2002). Electric revenues by customer class in 2002 were: residential, 35.9% (33.8% in 2001); commercial, 30.4% (30.8%); industrial, 21.0% (22.3%); wholesale, 11.8% (12.2%), and other, 0.9% (0.9%).

Sources of fuel for the Southern system in 2002 were: coal, 69% (72% in 2001, 78% in 2000); nuclear, 16% (16%, 16%); hydroelectric, 3% (3%, 2%) and gas, 12% (9%, 4%).

In January 2001, SO announced the formation of a new subsidiary, Southern Power Company (SPC), to own, manage and finance wholesale generating assets in the Southeast. Energy from SPC's assets was to be marketed to wholesale customers through the Southern Company Generation and Energy Marketing subsidiary. SPC had 2,400 megawatts of generating capacity at December 31, 2002.

The company operates, through subsidiaries, 34 hydroelectric generating stations, 33 fossil fuel generating stations, three nuclear generating stations, and eight combined cycle/cogeneration stations. SO has projected its construction additions or acquisitions of property during the period 2002 through 2004 at $2.08 billion in 2003, $2.31 billion in 2004, and $2.35 billion in 2004.

On April 2, 2001, the company completed the spinoff of its remaining interest in Mirant Corp. (NYSE: MIR). In October 2000, SO completed an IPO of 19.7% of its Southern Energy subsidiary (renamed Mirant in January 2001), a global independent power producer with energy marketing and risk management businesses. Gross proceeds to SO from the IPO were $1.47 billion.

SO is also the parent company for a system service company that provides, at cost, specialized service to the parent and its subsidiaries; Southern Telecom, which provides wholesale fiber optic solutions to telecommunication providers in the Southeast; Southern Communications Services (Southern LINC), which provides digital, wireless communications services to the five utility subsidiaries, as well as to the general public within the Southeast; and Southern Nuclear, which provides services to Southern Company's nuclear power plants.

In June 2002, SO formed Southern Company GAS, a wholly owned unit that began operation in August 2002 as a retail gas marketer in Georgia. In July 2002, the unit acquired from The New Power Company (out of bankruptcy) 210,000 retail gas customer in Georgia, for about $60 million.

Per Share Data ($) (Year Ended Dec. 31)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Tangible Bk. Val.	11.56	10.87	15.12	6.14	8.77	10.52	12.49	11.99	12.48	NA
Earnings	1.85	1.61	2.01	1.86	1.40	1.42	1.68	1.66	1.52	1.57
S&P Core Earnings	1.35	1.12	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	1.35	1.34	1.34	1.34	1.34	1.30	1.26	1.22	1.18	1.14
Payout Ratio	74%	83%	67%	72%	96%	92%	75%	73%	78%	73%
Prices - High	31.14	35.72	35.00	29.62	31.56	26.25	25.87	25.00	22.06	23.62
- Low	23.22	20.69	20.37	22.06	23.93	19.87	21.12	19.37	17.00	18.43
P/E Ratio - High	17	22	17	16	29	18	15	15	15	15
- Low	13	13	10	12	17	14	13	12	11	12
Income Statement Analysis (Million $)										
Revs.	10,549	10,155	10,066	11,585	11,403	12,611	10,358	9,180	8,297	8,489
Depr.	1,047	1,173	1,171	1,307	1,539	1,246	996	904	821	793
Maint.	961	909	852	945	887	763	782	683	680	653
Fxd. Chgs. Cov.	3.80	3.25	2.87	2.71	2.83	2.66	3.77	3.31	3.28	3.99
Constr. Credits	22.0	NA	NA	NA	NA	20.0	23.0	25.0	29.0	22.0
Eff. Tax Rate	28.6%	33.3%	37.2%	33.2%	38.8%	42.7%	36.9%	39.2%	38.9%	34.8%
Net Inc.	1,318	1,119	994	1,276	977	972	1,127	1,103	989	1,002
S&P Core Earnings	984	776	NA	NA	NA	NA	NA	NA	NA	NA
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	41,764	38,104	35,972	38,620	37,363	34,044	34,190	33,093	30,604	28,947
Cap. Exp.	2,717	2,617	2,225	2,560	2,006	1,859	1,229	1,401	1,538	1,441
Net Prop.	26,316	23,084	21,622	24,844	24,124	22,110	23,269	23,026	21,117	20,019
Capitalization:										
LT Debt	8,656	10,941	10,487	14,443	13,020	10,274	7,936	8,306	7,899	7,411
% LT Debt	50.7	57.8	49.4	60.8	57.1	46.3	42.7	44.9	44.1	45.1
Pfd.	Nil	Nil	Nil	Nil	Nil	2,237	1,402	1,432	1,432	1,353
% Pfd.	Nil	Nil	Nil	Nil	Nil	10.0	7.60	7.70	8.30	6.10
Common	8,710	7,984	10,690	9,296	9,797	9,647	9,216	8,772	8,186	7,684
% Common	49.3	42.2	50.6	39.2	42.9	48.5	49.7	47.4	47.6	46.8
Total Cap.	22,937	24,147	26,436	29,662	24,790	27,997	24,464	24,877	23,003	22,358
% Oper. Ratio	80.5	81.9	82.0	81.7	82.8	84.6	82.1	79.6	79.3	79.2
% Earn. on Net Prop.	10.1	10.7	11.4	6.5	7.3	8.8	8.0	8.5	8.3	9.7
% Return On Revs.	12.5	11.0	9.9	11.0	8.6	7.7	10.9	12.0	11.9	11.8
% Return On Invest. Capital	8.5	7.4	7.3	9.6	13.8	10.4	7.9	7.9	7.6	9.3
% Return On Com. Equity	15.8	12.0	10.0	13.4	10.0	10.3	12.5	13.0	12.5	13.4

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Office—270 Peachtree St. N.W., Atlanta, GA 30303. Tel—(404) 506-5000. Website—http://www.southernco.com Chrmn Pres & CEO—H. A. Franklin. EVP, CFO & Treas—T. A. Fanning. Investor Contact—Glen Kundert (404-506-5135). Dirs—D. P. Amos, D. J. Bern, T. F. Chapman, H. A. Franklin, B. S. Gordon, L. G. Hardman III, D. M. James, Z. T. Pate, J. N. Purcell, G. J. St. Pe. Transfer Agent & Registrar—SCS Stockholder Services, Atlanta. Incorporated—in Delaware in 1945. Empl— 26,178. S&P Analyst: Justin McCann/PMW/JWP

STANDARD &POOR'S

STOCK REPORTS

Cinergy Corp.

NYSE Symbol **CIN**

In S&P 500

30-NOV-02

Sub-Industry: Electric Utilities

Summary: CIN is the holding company for Cincinnati Gas & Electric Co. and PSI Energy, serving more than 1.5 million electric and 495,000 gas customers in Indiana, Ohio and Kentucky.

S&P Opinion: Hold (★★★)

Quantitative Evaluations

Outlook (1 Lowest - 5 Highest)
• 2-

Fair Value
• 30.80

Risk
• **Average**

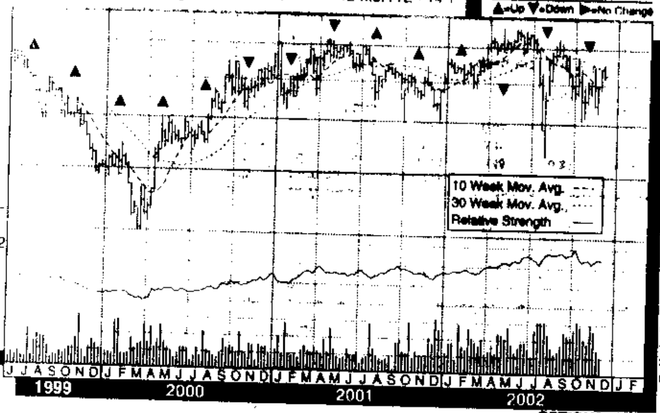
Earn./Div. Rank
• **B+**

Technical Eval.
• **Bearish** since 11/02

Rel. Strength Rank (1 Lowest - 99 Highest)
• 50

Insider Activity
• NA

Price As Of 11/29/02 • 32.40 | Yield • 5.6%
52 Wk Range • 37.19-25.40 | 12-Mo. P/E • 14.1



OPTIONS: CBOE

Overview - 22-AUG-02

Operating EPS should increase around 2% in 2002, excluding one-time second quarter charges of $0.25 related to CIN's early retirement and employee severance programs. The modest increase reflects 6.5 million new shares issued to raise about $200 million. In August 2000, the Ohio public utility commission approved an agreement that reduced the generation portion of CG&E's residential bills by 5% as of January 1, 2001, and froze its residential rates though the end of 2005. The agreement also authorized the transfer of CIN's generation assets to an unregulated subsidiary, and allowed it to recover its regulatory assets (liabilities that can be charged to customers) and other transition costs over 10 years. To comply with state and federal Clean Air Act requirements that begin in 2003, CIN's utilities agreed to invest, over a 15-year period, over $1.3 billion in pollution control equipment aimed at reduction of nitrogen oxide (NOx) emissions.

Valuation - 22-AUG-02

We recommend holding CIN shares. The stock was recently up about 6% in 2002 (compared to a nearly 13% decrease for the S&P Index of Electric Utilities). This follows a 4.8% decline in 2001 (versus an 18.8% drop for that index). The increase in 2002 has been fueled in part by rumors related to CIN's appeal as a potential merger partner. In 2000, the stock recovered from a sharp 30% drop in 1999 (when the shares were hurt badly by CIN's default on its power contracts), and advanced over 46%, aided by favorable regulatory developments in Ohio. Cinergy should continue to benefit from modest customer growth and a well positioned gas distribution business. With the dividend yielding about 5.1%, and the stock trading at around 12X our 2002 operating EPS estimate of $2.80, the shares are attractive for the income oriented investor.

Key Stock Statistics

S&P EPS Est. 2002	2.55	Tang. Bk. Value/Share	16.89
P/E on S&P Est. 2002	12.7	Beta	-0.06
S&P EPS Est. 2003	2.65	Shareholders	58,601
Dividend Rate/Share	1.80	Market cap. (B)	$ 5.5
Shs. outstg. (M)	168.3	Inst. holdings	61%
Avg. daily vol. (M)	0.856		

Value of $10,000 invested 5 years ago: $ 12,161

Fiscal Year Ending Dec. 31

	2002	2001	2000	1999	1998	1997
Revenues (Million $)						
1Q	2,204	3,707	1,583	1,402	1,332	1,030
2Q	2,480	3,642	1,770	1,275	1,072	865.3
3Q	3,886	3,324	2,300	1,782	1,976	1,355
4Q	—	2,250	2,770	1,478	1,384	1,102
Yr.	—	12,923	8,422	5,938	5,876	4,353
Earnings Per Share ($)						
1Q	0.59	0.75	0.87	0.80	0.67	0.72
2Q	0.26	0.51	0.47	0.37	-0.16	0.35
3Q	0.77	0.80	0.58	0.76	0.89	0.53
4Q	E0.63	0.69	0.58	0.60	0.45	0.70
Yr.	E2.55	2.75	2.50	2.53	1.65	2.28

Next earnings report expected: late January

Dividend Data (Dividends have been paid since 1853.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.450	Jan. 28	Jan. 31	Feb. 04	Feb. 15 '02
0.450	May. 02	May. 06	May. 08	May. 15 '02
0.450	Jul. 24	Aug. 01	Aug. 06	Aug. 15 '02
0.450	Sep. 30	Oct. 10	Oct. 15	Nov. 15 '02

Item 20, page 12

STANDARD &POOR'S

STOCK REPORTS

Cinergy Corp.

[illegible]NOV-02

Business Summary [illegible]

Cinergy Corp. [illegible] serving nearly 1.5 million [illegible] gas customers in a 25,600 square mile [illegible] Ohio, Indiana and Kentucky. It was formed through the 1994 merger of Cincinnati Gas & Electric Co. and PSI Resources, Inc.

Contributions to revenues by business segment in 2001 were: electric, [illegible] in 2000); gas, 36.1% (34.9%), and other [illegible]

In its order approving the [illegible], the SEC reserved jurisdiction over [illegible] of Cincinnati Gas & Electric's [illegible] for three years. At the end of [illegible] CIN was required to state how its [illegible] all relevant standards [illegible] Company Act (PUHCA) [illegible] the company filed with the SEC [illegible] its retention of the gas operations [illegible]. In November 1998, the SEC [illegible] retention of CG&E's gas operations.

Cincinnati Gas & Electric (CG&E) and its subsidiaries supply electricity and [illegible] in the southwestern portion of Ohio and [illegible] in Kentucky and Indiana. The primary subsidiary of PSI Resources (formerly PSI Holdings) is PSI Energy (formerly Public Service Co. of Indiana), Indiana's largest electric utility, serving a population of about [illegible] million.

Consolidated construction expe[illegible] were $1.55 billion [illegible]. For the period [illegible] through 2006, CIN [illegible] projected constru[illegible] of $3.07 billion. The forecast includes [illegible] (estimated at approximately $600 million) required to comply with proposed nitrogen oxide (NOx) [illegible]

In mid-1998, Cinergy and GPU, Inc. formed a joint venture to acquire Midlands Electricity [illegible] British regional electric company that distributes [illegible] electricity to 2.2 million customers [illegible] In July 1999, CIN sold its 50% interest [illegible] GPU for about $700 million. Including CIN[illegible] assumed by GPU, the transaction [illegible] $1.55 billion. CIN retained Midland's [illegible] trading operations [illegible] also maintained [illegible] Cinergy Global Power Services, [illegible] in the development of international [illegible]

The company's other principal [illegible] include Cinergy Wholesale Energy, the [illegible] for CIN's energy commodity business [illegible] electric production, as the generation [illegible] unbundled from the utility subsidiaries [illegible] services, which provides the subsidiaries with [illegible] administrative, management and support services; Cinergy Global Resources, which holds CIN's international business and investments, and direct investments for renewable energy activities; and Cinergy Technologies, which holds technology-related investments.

Per Share Data ($)

(Year Ended Dec. 31)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Tangible Bk. Val.	[illegible]	17.54	16.69	15.91	16.00	[illegible]26	16.17	[illegible]	[illegible]	19.01
Earnings	[illegible]	2.50	2.53	1.65	2.28	2.00	2.22	[illegible]	[illegible]	2.04
Dividends	1.80	1.80	1.80	1.80	1.80	1.74	1.72	[illegible]	[illegible]	1.65
Payout Ratio	[illegible]	72%	71%	109%	10%	87%	77%	107%	[illegible]	81%
Prices - High	[illegible]	35.25	34.87	39.87	39.12	34.25	31.12	27.75	[illegible]	26.58
- Low	[illegible]	20.00	23.43	30.81	32.00	27.50	23.37	20.75	[illegible]	22.26
P/E Ratio - High	[illegible]	14	14	24	17	17	14	[illegible]	[illegible]	13
- Low	[illegible]	8	9	19	14	14	11	16	[illegible]	11

Income Statement Analysis (Million $)

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Revs.	[illegible]	8,422	5,938	5,876	4,353	3,243	3,031	[illegible]	[illegible]	1,553
Depr.	[illegible]	374	354	326	289	283	280	294	[illegible]	141
Maint.	NA	205	[illegible]	192	176	[illegible]	182	[illegible]	[illegible]	105
Fxd. Chgs. Cov.	[illegible]	3.6	[illegible]	2.3	3.1	[illegible]	2.3	[illegible]	[illegible]	2.3
Constr. Credits	NA	NA	NA	NA	7.4	[illegible]	10.0	[illegible]	[illegible]	18.0
Eff. Tax Rate	[illegible]	[illegible]	34%	31%	37%	[illegible]	39%	[illegible]	[illegible]	25%
Net Inc.	[illegible]	[illegible]	404	261	363	[illegible]	347	[illegible]	[illegible]	202

Balance Sheet & Other Fin. Data (Million $)

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Gross Prop.	[illegible]	[illegible]	10,677	10,195	9,914	[illegible]	9,619	[illegible]	[illegible]	5,308
Cap. Exp.	[illegible]	620	[illegible]	369	328	[illegible]	325	[illegible]	[illegible]	230
Net Prop.	[illegible]	6,630	6,417	6,155	6,114	[illegible]	6,251	[illegible]	[illegible]	3,945
Capitalization:										
LT Debt	[illegible]	2,939	3,082	2,604	2,166	[illegible]	2,531	2,715	[illegible]	1,610
% LT Debt	57	51	54	50	44	[illegible]	46	48	[illegible]	48
Pfd.	NA	Nil	Nil	92.6	178	194	388	478	[illegible]	330
% Pfd.	NA	Nil	Nil	1.80	3.60	3.70	7.10	8.50	9.00	8.70
Common	2,942	2,789	2,654	2,541	2,539	2,584	2,549	2,414	[illegible]	1,655
% Common	43	49	46	49	52	49	47	48	41	44
Total Cap.	[illegible]	6,914	5,736	6,486	6,283	[illegible]	6,774	[illegible]	[illegible]	4,250
% Oper. Ratio	94.7	92.8	91.8	89.1	86.4	[illegible]	80.8	84.9	81.9	83.3
% Earn. on Net Prop.	[illegible]	13.2	10.9	9.2	8.8	[illegible]	9.4	7.2	[illegible]	6.7
% Return On Revs.	3.4	4.7	6.8	4.4	8.3	10.8	11.5	6.8	[illegible]	13.0
% Return On Invest. Capital	9.4	9.1	11.7	9.0	11.9	[illegible]	8.9	6.7	[illegible]	8.7
% Return On Com. Equity	[illegible]	14.7	15.6	10.3	14.2	13.0	14.0	[illegible]	NM	10.8

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Registrar—Fifth Third Bank, Cincinnati. Office—139 East Fourth St., Cincinnati, OH 45202. Tel—(513) 421-9500. Website—http://www.cinergy.com Chrmn, Pres & CEO—J. E. Rogers. EVP & CFO—R. F. Duncan. Secy—J. S. Janson. Investor Contact—[illegible] (513-287-1083). Dirs—J. K. Baker, M. G. Browning, P. R. Cox, J. A. Hillenbrand II, G. C. Juilfs, T. E. Petry, J. H. Randolph, J. E. Rogers, M. L. Schapiro, J. J. Schiff Jr., P. R. Sharp, D/S. Taft. Transfer Agent—Co's office. Incorporated—in Ohio in 1837; reincorporated in Delaware in 1994. Empl— 8,769. S&P Analyst: Justin McCann/MF

STANDARD & POOR'S
STOCK REPORTS

Constellation Energy Group

NYSE Symbol **CEG**

In S&P 500

30-NOV-02 **Sub-Industry:** Electric Utilities

Summary: This holding company [illegible] energy-related businesses, including a North American wholesale power marketing and merchant generation business, and Baltimore Gas and Electric Co.

S&P Opinion: Hold (★★★)

Price As Of 11/29/02 • 26.35 | Yield • 3.6%
52-Wk Range • 32.28-19.30 | 12-Mo. P/E • 22.1

Earnings vs. Previous Year: ▲-Up ▼-Down ▶-No Change

Quantitative Evaluations

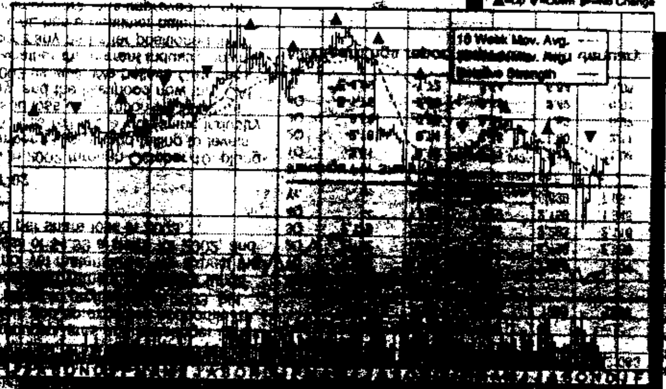
Outlook (1 Lowest—5 Highest)

Fair Value

Risk

Earn./Div. Rank

Technical Eval.



[illegible] to the change and uncertainty in [illegible] By remaining a single company, CEG believes it will be better able [illegible] opportunities that will emerge in the [illegible] merchant energy market.

Valuation - 27-NOV-02

[illegible] than 35% from their 2002 low, the shares are [illegible] flat year to date, outperforming the approximate [illegible] decline of the electric utility peers. In 2001, [illegible] were down 41%, hurt badly by two CEG [illegible] announcements. In the first, the company projected an earnings shortfall for 2001; in the second, it announced that it had canceled the pending separation of its [illegible] energy operations, and that it expected earnings [illegible] 2002 to be relatively flat with those of 2001. [illegible] subsequent rebound in the shares (aided by a [illegible] double the annual dividend, from $0.48 to [illegible] has become reasonably [illegible] our 2003 EPS estimate. However, in light of the uncertain outlook for the energy market, we would not recommend that investors add to [illegible]

1Q	[illegible]	[illegible]	[illegible]	[illegible]	866.1	687.7
2Q	[illegible]	[illegible]	[illegible]	[illegible]	767.8	746.4
3Q	[illegible]	[illegible]	[illegible]	[illegible]	884.6	880.8
4Q	[illegible]	[illegible]	[illegible]	[illegible]	790.4	812.6
Yr.	[illegible]	[illegible]	[illegible]	3,786	3,358	3,308
Earnings Per Share ($)						
1Q	[illegible]	[illegible]	[illegible]	[illegible]	0.50	0.43
2Q	[illegible]	[illegible]	[illegible]	[illegible]	0.30	0.06
3Q	[illegible]	[illegible]	[illegible]	[illegible]	1.30	1.11
4Q	[illegible]	[illegible]	[illegible]	0.30	0.00	0.12
Yr.	[illegible]	[illegible]	[illegible]	2.10	2.06	1.72

Next earnings report expected: late January
Dividend Data (Dividends have been paid since 1910.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.240	Jan. 30	Mar. 07	Mar. 11	Apr. 01 '02
0.240	May. 24	Jun. 06	Jun. 10	Jul. 01 '02
[illegible]	[illegible]	[illegible]	Sep. 10	Oct. 01 '02
[illegible]	[illegible]	[illegible]	Dec. 10	Jan. 02 '03

STANDARD & POOR'S
STOCK REPORTS

Constellation Energy Group, Inc.

30-NOV-02

Business Summary - 27-NOV-02

On October 26, 2001, Constellation Energy Group announced that it had canceled its plan (announced on October 23, 2000) to separate its businesses into two stand-alone publicly traded companies. The merchant energy business, which includes wholesale generation and power marketing, and the retail services business, which includes BGE (Baltimore Gas & Electric), will remain consolidated under a single holding company with two major lines of business. Also on October 26, the company announced the termination of its power advisory relationship with Goldman Sachs.

BGE is a utility that serves more than 1.1 million electric customers and around 600,000 gas customers in central Maryland. The local economy includes service businesses, heavy industry, and the Port of Baltimore.

In 2001, the regulated electricity business accounted for 52% of revenues (55% in 2000); regulated gas, 17% (16%); merchant energy, 16% (11%); and other nonregulated businesses, 15% (18%).

Electric revenues by customer class in 2001 were: commercial, 45.0% (45.1% in 2000); residential, 44.1% (45.0%); and industrial, 10.9% (9.9%).

In April 1999, Maryland enacted legislation providing all commercial and industrial customers with a choice of power supplier as of January 1, 2000. In November 1999, the Maryland Public Service Commission issued an order giving all customers the option to choose as of July 1, 2000. Under the order, BGE would reduce residential base rates by about 6.5% (about $54 million a year) from July 1, 2000, through July 1, 2006, transfer its generation assets to non-regulated subsidiaries, and be allowed to recover $528 million of stranded investments and restructuring costs.

On July 1, 2000, BGE transferred all of its non-nuclear generation assets to the Constellation Power Source Generation subsidiary of Constellation Power Source Holdings, whose other subsidiaries include Constellation Power Source, which is involved in wholesale power marketing and trading; and Constellation Power, which develops, owns and operates domestic and international power projects. BGE also transferred its two Calvert Cliffs nuclear units to Constellation Nuclear, which, in December 2000, agreed to buy, for $815 million, the Nine Mile Point nuclear Unit 1 (a 100% interest) and Unit 2 (82%), which are located in upstate New York.

The nonregulated units of the retail services business include Constellation Energy Source, which provides businesses with customized energy products and services; BGE Home Products and Services, which sells appliances and home improvement services; Comfort Link, which provides cooling services for commercial customers; Constellation Investments, a financial business; and Constellation Real Estate Group, which manages CEG's real estate and its senior-living facilities

Per Share Data ($) (Year Ended Dec. 31)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Tangible Bk. Val.	23.44	20.88	19.86	19.96	19.44	19.25	18.96	18.42	17.82	17.57
Earnings	0.52	2.30	2.18	2.06	1.72	1.88	2.02	1.91	1.85	1.63
Dividends	0.48	1.68	1.68	1.66	1.63	1.59	1.55	1.51	1.47	1.43
Payout Ratio	92%	73%	77%	81%	95%	86%	77%	78%	79%	88%
Prices - High	50.14	52.06	31.50	35.25	34.31	29.50	29.00	25.50	27.50	24.37
- Low	20.90	27.06	24.68	29.25	24.75	25.00	22.00	20.50	22.37	19.75
P/E Ratio - High	96	23	14	17	20	16	14	13	15	15
- Low	40	12	11	14	14	14	11	11	12	12
Income Statement Analysis (Million $)										
Revs.	3,928	3,879	3,787	3,358	3,308	3,153	2,935	2,783	2,669	2,191
Depr.	419	470	450	377	343	330	317	296	237	223
Maint.	NA	NA	186	178	179	174	168	165	182	173
Fxd. Chgs. Cov.	3.0	3.1	3.0	2.8	2.9	2.6	2.6	2.6	2.8	2.4
Constr. Credits	NA	NA	NA	9.7	5.3	10.0	21.8	33.5	22.5	22.1
Eff. Tax Rate	32%	40%	36%	35%	36%	35%	33%	32%	31%	28%
Net Inc.	82.4	345	326	328	283	311	338	324	310	264
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	11,862	10,442	8,989	8,744	8,495	8,196	7,979	7,722	7,359	6,947
Cap. Exp.	1,318	1,079	436	339	373	361	458	483	478	389
Net Prop.	7,700	6,844	5,523	5,657	5,652	5,682	5,498	5,417	5,197	4,966
Capitalization:										
LT Debt	2,903	3,349	2,765	3,128	2,989	2,759	2,598	2,585	2,823	2,377
% LT Debt	43	52	48	51	49	46	44	45	47	43
Pfd.	Nil	Nil	Nil	-7.0	23.0	345	511	489	552	565
% Pfd.	Nil	Nil	Nil	NM	4.87	5.80	8.60	8.40	9.20	10
Common	3,844	3,153	2,993	2,982	2,870	2,867	2,813	2,718	2,621	2,535
% Common	57	48	52	49	47	48	48	47	44	46
Total Cap.	8,271	7,948	7,157	7,727	7,432	7,261	7,234	7,097	7,220	6,626
% Oper. Ratio	78.3	84.3	84.8	82.8	78.4	84.1	82.1	82.7	81.0	82.7
% Earn. on Net Prop.	5.0	13.3	13.8	13.1	11.9	12.1	12.7	11.1	9.5	8.8
% Return On Revs.	2.1	8.9	8.6	9.8	8.6	9.9	11.5	11.6	11.6	10.6
% Return On Invest. Capital	10.5	8.2	7.8	11.0	8.6	9.2	9.6	7.2	7.2	7.1
% Return On Com. Equity	2.3	11.2	10.9	10.5	8.9	9.6	10.8	10.6	10.4	9.5

Data as orig reptd (for Baltimore G&E pr. to 4/30/99); bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office—250 W. Pratt Street, Baltimore, MD 21201. **Tel**—(410) 234-5000. **Website**—http://www.contstellationenergy.com **Chrmn**—C. H. Poindexter. **Pres & CEO**—M. A. Shattuck III. **SVP & CFO**—E. F. Smith. **VP & Secy**—D. A. Brune. **Investor Contact**—Brian Stanton. **Dirs**—D. L. Becker, J. T. Brady, F. R. Bramble, Sr., B. B. Byron, E. A. Crooke, J. R. Curtiss, R. W. Gale, F. A. Hrabowski III, E. J. Kelly, N. Lampton, C. R. Larson, R. J. Lawless, C. H. Poindexter, M. A. Shattuck III, M. D. Sullivan. **Transfer Agent & Registrar**—Co.'s office; Continental Stock Transfer and Trust Co., New York. **Incorporated**—in Maryland in 1906. **Empl**— 9,200. **S&P Analyst:** Justin McCann/CB

Item 20, page 13

DTE Energy

NYSE Symbol **DTE**
In S&P 500

30-NOV-02

Sub-Industry: Electric Utilities

Summary: This energy holding company for Detroit Edison acquired Detroit-based MCN Energy Group, the holding company for Michigan Consolidated Gas, in 2001.

S&P Opinion: Hold (★★★)

Quantitative Evaluations

Outlook (1 Lowest—5 Highest)
• 4⁻

Fair Value
• 47

Risk
• Low

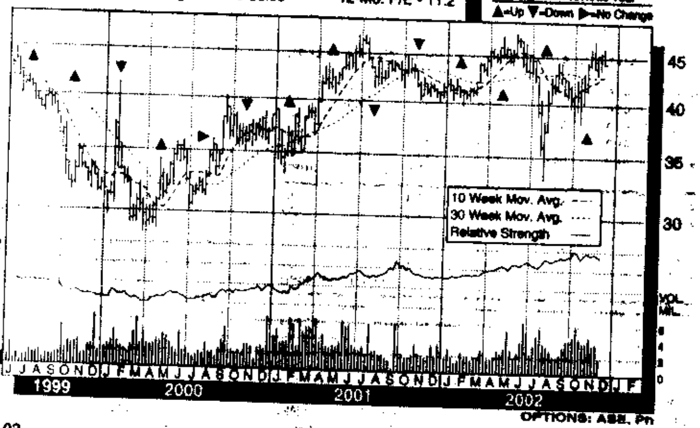
Earn./Div. Rank
• B+

Technical Eval.
• Bullish since 10/02

Rel. Strength Rank (1 Lowest—99 Highest)
• 51

Insider Activity
• Neutral

Price As Of 11/29/02 • 44.33 | Yield • 4.6%
52 Wk Range • 47.70-33.05 | 12-Mo. P/E • 11.2



OPTIONS: ASE, Ph

Overview - 21-AUG-02

We expect EPS in 2002 to advance approximately 10% from 2001's operating EPS of $3.48. Earnings will depend on the timing of an economic recovery, as well as the impact of the implementation, on January 1, 2002, of customer choice of electric supplier. DTE anticipates a 5% to 6% decrease in its electric load. However, we expect the company to experience increased contributions from non-regulated businesses in 2002, particularly from the coal-based fuels segment. After state legislation reduced residential rates by 5% as of June 5, 2000, the Michigan Public Service Commission authorized Detroit Edison to recover, by issuing securitized bonds, $1.77 billion of stranded costs. Following the MCN Energy merger, annual revenues should exceed $8 billion. DTE will seek growth through energy opportunities in the Midwest to Northeast.

Valuation - 21-AUG-02

We would hold the shares. The stock was recently up about 1% in 2002, versus declines of about 13% and 30% for the S&P Electric Index and Gas Utilities Index. In 2001, the shares rose 7.7%, versus declines of 18.8% and 22.1% for the indexes. The relatively favorable comparisons reflected anticipation and subsequent completion of the MCN Energy acquisition. We believe the acquisition was a good one, with the contiguous and overlapping service territories providing a strong base for growth of non-regulated operations. In 2000, the shares increased 23.1% (versus a 45.4% advance for the Electric Utilities Index), but rebounded 36% from an early March low, reflecting the anticipated (and subsequently authorized) recovery of Detroit Edison's stranded costs. With a secure dividend yielding about 4.9%, the stock remains attractive for income-oriented investors.

Key Stock Statistics

S&P EPS Est. 2002	3.90	Tang. Bk. Value/Share	17.96
P/E on S&P Est. 2002	11.4	Beta	-0.08
S&P EPS Est. 2003	4.00	Shareholders	114,556
Dividend Rate/Share	2.06	Market cap. (B)	$ 7.4
Shs. outstg. (M)	167.5	Inst. holdings	57%
Avg. daily vol. (M)	0.711		

Value of $10,000 invested 5 years ago: $ 17,579

Fiscal Year Ending Dec. 31

	2002	2001	2000	1999	1998	1997
Revenues (Million $)						
1Q	2,400	1,842	1,182	1,024	945.0	868.6
2Q	1,981	1,790	1,428	1,150	1,064	892.3
3Q	1,649	2,081	1,547	1,440	1,199	1,030
4Q	—	2,136	1,440	1,114	1,013	973.9
Yr.	—	7,849	5,597	4,728	4,221	3,764
Earnings Per Share ($)						
1Q	1.24	0.95	0.81	0.79	0.72	0.49
2Q	0.42	-0.60	0.76	0.75	0.69	0.59
3Q	0.96	0.38	0.73	1.11	0.91	0.91
4Q	E1.28	1.34	0.97	0.67	0.72	0.89
Yr.	E3.90	2.07	3.27	3.33	3.05	2.88

Next earnings report expected: mid February
Dividend Data (Dividends have been paid since 1909.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.515	Feb. 28	Mar. 21	Mar. 25	Apr. 15 '02
0.515	Jun. 13	Jun. 26	Jun. 28	Jul. 15 '02
0.515	Aug. 19	Sep. 24	Sep. 26	Oct. 15 '02
0.515	Nov. 26	Dec. 19	Dec. 23	Jan. 15 '03

Item 20, page 14

DTE Energy Company

[illegible]OV-02

Business Summary [illegible]

DTE Energy [illegible] is the holding company for Detroit Edison [illegible] the largest electric utility in Michigan [illegible] customers in the southeastern [illegible].

On [illegible] 2001, DTE [illegible] MCN Energy Group, Inc. (MCN), an [illegible] gas company. The transaction, under a [illegible] 2001 revision of an October 1999 agreement, was for cash (55%) and stock (45%) valued at [illegible] billion (versus $2.6 billion in the original agreement), [illegible] assumption of $2 billion of debt. Detroit-based [illegible] Michigan Consolidated Gas [illegible] which [illegible] gas to 1.2 million customers [illegible].

Electric revenues were [illegible] revenues in 2001 (79% in 2000) [illegible] electric [illegible] commercial [illegible] (21%), and wholesale [illegible].

Gas revenues by segment [illegible] non-regulated 64% [illegible].

Non-regulated businesses [illegible] DTE Energy Trading Company, which is [illegible] trading and marketing of electricity, gas [illegible] trades and markets [illegible] Energy Services, which consists of businesses [illegible] develop and manage energy-related assets and services [illegible] and synfuels production, independent [illegible] powerhouse [illegible] cogeneration [illegible] and landfill gas recovery.

Other [illegible] businesses acquired in the merger with MCN [illegible] exploration and production, gathering [illegible] storage of natural gas, and production of [illegible]. The company also has businesses primarily [illegible] emerging technologies.

In December 1998, the Michigan Public Service Commission (MPSC) authorized accelerated [illegible] of the Fermi 2 nuclear assets, providing for [illegible] recovery of assets by December 31, 2007.

In June 2000, Michigan enacted legislation [illegible] ing January 1, 2002, as the date for full implementation of the MPSC's program providing for full [illegible] choice of electricity supplier, required the [illegible] to reduce residential electric rates by [illegible] Detroit Edison with the right to recover [illegible].

In January 2002, transmission assets [illegible] Detroit Edison were transferred to wholly owned [illegible] Edison continues to bill and collect transmission revenues as authorized in the bundled [illegible] by the MPSC. In August 2001, ITC [illegible] with the Federal Energy Regulatory Commission to join the Midwest Independent System Operator.

Per Share Data ($) (Year Ended Dec. 31)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1992
Tangible Bk. Val.	[illegible]	[illegible]	25.49	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Earnings	[illegible]	[illegible]	3.05	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dividends	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Payout Ratio	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Prices - High	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Low	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
P/E Ratio - High	[illegible]	13	16	12	17	12	11	[illegible]	[illegible]	9
- Low	[illegible]	9	11	9	[illegible]	9	9	[illegible]	[illegible]	8
Income Statement Analysis (Million $)										
Revs.	[illegible]	[illegible]	[illegible]	4,221	3,764	[illegible]	3,635	[illegible]	[illegible]	[illegible]
Depr.	[illegible]	[illegible]	[illegible]	661	[illegible]	[illegible]	501	476	[illegible]	423
Maint.	[illegible]	NA	NA	NA	NA	[illegible]	240	[illegible]	[illegible]	[illegible]
Fxd. Chgs. Cov.	[illegible]	2.4	2.5	2.6	[illegible]	[illegible]	3.2	3.0	[illegible]	3.0
Constr. Credits	NA	NA	NA	Nil	Nil	[illegible]	[illegible]	[illegible]	[illegible]	3.0
Eff. Tax Rate	[illegible]	[illegible]	[illegible]	26%	38%	42%	41%	39%	[illegible]	[illegible]
Net Inc.	[illegible]	[illegible]	483	443	417	[illegible]	406	420	[illegible]	[illegible]
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	17,067	[illegible]	12,746	12,178	14,495	13,777	13,304	13,046	12,717	13,223
Cap. Exp.	1,096	749	739	555	456	531	454	378	399	416
Net Prop.	[illegible]	7,367	7,148	6,943	6,934	8,501	8,519	8,586	8,651	9,014
Capitalization:										
LT Debt	7,926	4,062	4,062	4,323	3,914	[illegible]	3,756	3,961	3,972	4,129
% LT Debt	63	50	51	54	51	52	50	53	[illegible]	[illegible]
Pfd.	Nil	Nil	Nil	Nil	144	144	327	380	[illegible]	[illegible]
% Pfd.	Nil	Nil	Nil	Nil	1.80	1.80	4.30	5.00	5.00	4.40
Common	[illegible]	4,015	3,909	3,898	3,562	3,444	3,436	3,326	[illegible]	3,114
% Common	37	50	49	46	47	46	46	44	[illegible]	41
Total Cap.	[illegible]	[illegible]	[illegible]	9,909	9,904	9,622	9,902	10,019	[illegible]	[illegible]
% Oper. Ratio	[illegible]	85.3	82.2	81.4	80.2	79.1	79.7	79.6	[illegible]	73.2
% Earn. on Net Prop.	[illegible]	11.4	12.6	11.8	8.4	7.2	8.6	8.3	[illegible]	10.6
% Return On Revs.	[illegible]	[illegible]	10.2	10.5	11.1	[illegible]	11.2	11.9	[illegible]	16.5
% Return On Invest. Capital	[illegible]	[illegible]	8.3	6.2	9.9	8.2	[illegible]	7.1	[illegible]	10.7
% Return On Com. Equity	[illegible]	[illegible]	[illegible]	12.2	11.9	8.9	12.0	11.6	[illegible]	[illegible]

Data as orig reptd.; bef. results of disc. opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office—2000 2nd Ave., Detroit, MI [illegible]. Tel—[illegible]. Website—http://www.dteenergy.com Chrmn, Pres & CEO—[illegible]. SVP & CFO—[illegible] Meador. VP & Secy—[illegible] Beale. Investor Contact—Peter J. Pinter (313-235-8030). Dirs—T. E. Adderley, [illegible] Bing, A. F. Earley Jr., F. M. Hennessey, A. D. Gilmour, A. R. Glancy III, T. S. Leipprandt, J. E. Lobbia, E. A. Miller, C. W. Pryor Jr., H. F. Sims, [illegible]. Transfer Agent & Registrar—Co.'s office. Incorporated—in New York in 1903; reincorporated in Michigan in 1967. Empl— [illegible]. S&P Analyst: Justin McCann/PMW

STANDARD &POOR'S

STOCK REPORTS

Empire District Electric

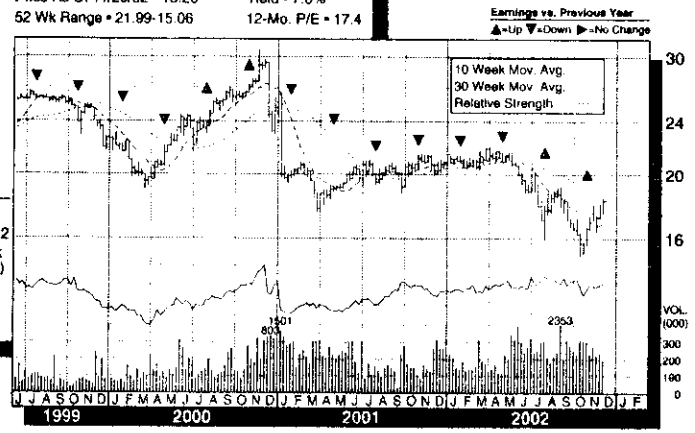
NYSE Symbol **EDE**

30-NOV-02 **Sub-Industry:** Electric Utilities

Summary: EDE provides electric service to parts of Missouri, Kansas, Oklahoma and Arkansas, and also provides water service to three towns in Missouri.

Quantitative Evaluations
Outlook (1 Lowest—5 Highest) • 2-
Fair Value • 15.10
Risk • Low
Earn./Div. Rank • B
Technical Eval. • Bullish since 11/02
Rel. Strength Rank (1 Lowest—99 Highest) • 63
Insider Activity • NA

Price As Of 11/29/02 • 18.26 Yield • 7.0%
52 Wk Range • 21.99-15.06 12-Mo. P/E • 17.4



Business Profile - 03-SEP-02

The company attributed its strong second quarter results to an increase in Missouri rates granted by the Missouri Public Service Commission (MPSC) in September 2001, and the June 6, 2002, settlement with respect to Interim Energy Charge (IEC) refund provisions. Significantly lower gas prices and more favorable weather conditions in the second quarter of 2002, versus the second quarter of 2001, also boosted earnings. In July, a subsidiary of EDE joined with seven other investors to acquire the assets of the Precision Products Department of Eagle Picher Technologies, LLC. The newly formed company, Mid-America Precision Products, LLC, specializes in close tolerance custom manufacturing for the aerospace, electronics, telecommunications and machinery industries, including components for specialized batteries for Eagle Picher Technologies. EDE holds a 50% interest in Mid-America.

Operational Review - 03-SEP-02

Revenues in the six months ended June 30, 2002, grew 12%, year to year, reflecting an increase in Missouri rates granted by the Missouri Public Service Commission in September 2001. Operating expenses were up only 2.1%, primarily reflecting lower purchased power costs; operating profit advanced 27%. With net other expense, versus other income, and a 22% rise in interest charges, net income was up 18%, to $3,489,972 ($0.17 a share, on 16% more shares), from $2,948,062 ($0.17).

Stock Performance - 29-NOV-02

In the past 30 trading days, EDE's shares have increased 17%, compared to a 6% rise in the S&P 500. Average trading volume for the past five days was 46,950 shares, compared with the 40-day moving average of 57,787 shares.

Key Stock Statistics

Dividend Rate/Share	1.28	Shareholders	6,796
Shs. outstg. (M)	22.5	Market cap. (B)	$0.411
Avg. daily vol. (M)	0.048	Inst. holdings	32%
Tang. Bk. Value/Share	14.63		
Beta	-0.01		

Value of $10,000 invested 5 years ago: $ 13,025

Fiscal Year Ending Dec. 31

	2002	2001	2000	1999	1998	1997
Revenues (Million $)						
1Q	64.82	60.55	54.03	54.74	51.39	47.31
2Q	68.43	58.40	57.43	53.31	56.27	45.98
3Q	99.8	83.34	86.22	81.46	77.86	68.64
4Q	—	61.96	62.32	52.65	54.34	53.39
Yr.	—	264.3	260.0	242.2	239.9	215.3
Earnings Per Share ($)						
1Q	-0.03	0.13	0.14	0.27	0.16	0.15
2Q	0.19	0.04	0.21	-0.02	0.33	0.12
3Q	0.82	0.42	0.82	0.66	0.80	0.73
4Q	—	0.01	0.19	0.21	0.24	0.28
Yr.	—	0.59	1.35	1.13	1.53	1.29

Next earnings report expected: early February

Dividend Data (Dividends have been paid since 1944.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.320	Oct. 25	Nov. 28	Dec. 01	Dec. 15 '01
0.320	Jan. 31	Feb. 27	Mar. 01	Mar. 15 '02
0.320	Apr. 25	May. 29	Jun. 01	Jun. 15 '02
0.320	Jul. 25	Aug. 28	Sep. 01	Sep. 15 '02

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Item 20, Page 15

STANDARD &POOR'S

STOCK REPORTS

The Empire District Electric Company

30-NOV-02

Business Summary - 03-SEP-02

Empire District Electric (EDE) generates, purchases, transmits, distributes and sells electricity in parts of Missouri, Kansas, Oklahoma and Arkansas. The company also provides water service to three towns in Missouri. In 2001, nearly all gross operating revenues came from electricity sales, with under 1% from water sales.

EDE's service territory consists of approximately 10,000 square miles and a population of more than 360,000, primarily throughout southwestern Missouri and smaller parts of southeastern Kansas, northeastern Oklahoma and northwestern Arkansas. In 2001, 88% of total retail electric revenues were earned in Missouri. Kansas, Oklahoma and Arkansas customers provided 6%, 3% and 3% of total electric revenues, respectively. In 2001, 42% of EDE's operating revenues came from residential customers. Commercial, industrial, wholesale and other customers provided 31%, 17%, 6% and 4%, respectively.

The company supplies electric service at retail to 119 incorporated communities, to various unincorporated areas, and at wholesale to four municipally owned distribution systems and two rural electric cooperatives. The largest urban area served is Joplin, MO, and its immediate vicinity, with a population of 157,000. EDE operates under franchises with original terms of 20 years or longer in virtually all of the incorporated communities. About 51% of electric operating revenues in 2001 came from incorporated communities with franchises having at least 10 years remaining, and about 18% were from incorporated communities in which franchises have remaining terms of 10 years or less.

Based on kilowatt hours generated, coal was used to supply 70% of total fuel requirements. Natural gas supplied 29%, with oil generation providing less than 1%. EDE expects to increase the amount of gas used as a fuel source. Construction spending totaled about $71.8 million in 2001. The company projects that construction spending will RISE to $72.2 million in 2002, and $85.8 million in 2003.

The maximum hourly demand on the company's system reached a record high of 1,001 megawatts on August 9, 2001. The previous record peak of 993 megawatts was established in August 2000. EDE set a new maximum hourly winter demand of 941 megawatts on December 19, 2000.

In May 1999, EDE agreed to be acquired by UtiliCorp United, Inc., a Kansas City, MO-based electric and gas utility, for approximately $800 million, including $505 million in stock and cash and the assumption of $260 million in debt. In January 2001, UtiliCorp terminated the agreement, citing lack of receipt of necessary regulatory approvals.

Per Share Data ($) (Year Ended Dec. 31)	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**	**1994**	**1993**	**1992**
Tangible Bk. Val.	13.32	13.43	13.24	13.18	12.84	12.72	11.72	12.06	11.37	12.29
Earnings	0.59	1.35	1.13	1.53	1.29	1.23	1.18	1.32	1.16	1.26
Dividends	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.26
Payout Ratio	NM	95%	113%	84%	99%	104%	108%	97%	110%	100%
Prices - High	26.56	30.75	26.75	26.12	20.00	19.50	19.75	20.50	24.87	24.75
- Low	17.50	18.93	20.68	18.37	15.75	17.12	15.87	15.00	19.12	20.12
P/E Ratio - High	45	23	24	17	16	16	17	16	21	20
- Low	30	14	18	12	12	14	13	11	16	16
Income Statement Analysis (Million $)										
Revs.	264	260	242	240	215	206	193	178	168	150
Depr.	29.5	27.8	26.4	25.0	23.4	21.6	19.9	18.3	17.4	16.5
Maint.	19.1	14.8	16.3	17.5	12.8	13.7	12.8	10.8	10.6	10.3
Fxd. Chgs. Cov.	1.4	2.1	2.6	2.9	2.6	2.6	2.7	3.0	2.7	2.9
Constr. Credits	3.8	5.8	1.2	0.4	1.2	1.0	2.2	1.0	0.2	0.1
Eff. Tax Rate	14%	33%	42%	36%	35%	35%	35%	35%	33%	33%
Net Inc.	10.4	23.6	22.2	28.3	23.8	22.0	19.8	19.7	15.9	16.9
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	1,100	1,049	920	858	810	757	699	657	587	547
Cap. Exp.	79.4	134	71.9	51.9	56.7	62.3	50.8	71.6	44.4	31.4
Net Prop.	750	720	616	572	547	515	476	446	394	367
Capitalization:										
LT Debt	359	326	346	246	196	220	195	185	165	144
% LT Debt	57	58	60	48	44	47	46	47	49	46
Pfd.	Nil	Nil	Nil	32.6	32.9	32.9	32.9	32.9	7.9	7.9
% Pfd.	Nil	Nil	Nil	6.42	7.30	7.10	7.80	8.40	2.30	2.50
Common	268	240	234	230	219	213	193	174	168	163
% Common	43	42	40	45	49	46	46	44	49	52
Total Cap.	718	657	667	591	527	540	491	459	406	376
% Oper. Ratio	82.4	82.2	80.0	80.1	80.9	82.2	82.6	82.0	82.6	80.0
% Earn. on Net Prop.	5.9	6.9	7.2	8.5	7.7	7.4	7.2	7.6	7.7	8.3
% Return On Revs.	3.9	9.1	9.2	11.8	11.1	10.7	10.3	11.1	9.5	11.2
% Return On Invest. Capital	7.1	7.9	6.8	11.2	10.1	9.4	7.0	7.5	7.5	8.1
% Return On Com. Equity	4.1	10.0	9.0	11.5	9.9	9.7	9.5	10.6	9.4	10.3

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

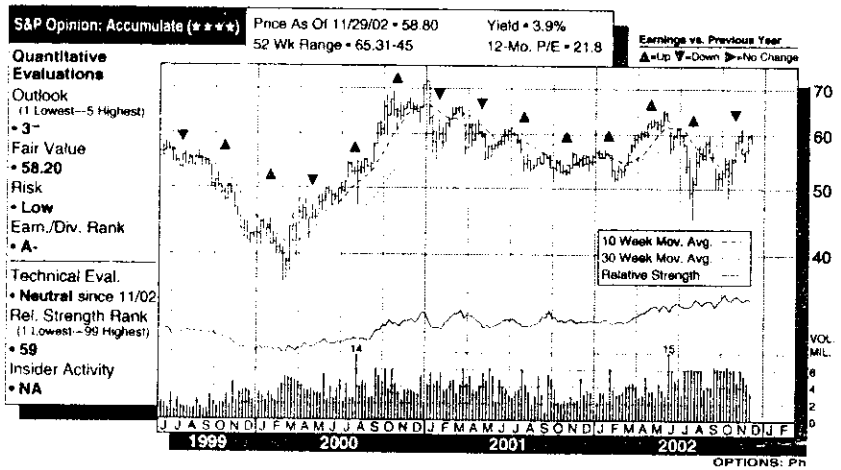
Office—602 Joplin St., Joplin, MO 64801. **Tel**—(417) 625-5100. **Website**—http://www.empiredistrict.com **Pres & CEO**—W. L. Gipson **VP-Fin**—G. A. Knapp. **Secy, Treas & Investor Contact**—Janet S. Watson (417-625-5100 ext 2223). **Dirs**—M. F. Chubb Jr., W. L. Gipson, R. D. Hammons, R. C. Hartley, J. Herschend, F. E. Jeffries, R. L. Lamb, J. S. Leon, M. W. McKinney, M. M. Posner. **Transfer Agent & Registrar**—Mellon Investor Services, South Hackensack, NJ. **Incorporated**—in Kansas in 1909. **Empl**— 618. **S&P Analyst:** Michael Infranco/CB

FPL Group

NYSE Symbol **FPL**
In S&P 500

30-NOV-02 **Sub-Industry:** Electric Utilities

Summary: This electric utility holding company for Florida Power & Light Co. terminated its merger agreement with Entergy Corp. in April 2001.



Overview - 16-SEP-02

Operating EPS should grow about 2% in 2002, reflecting a modest increase at Florida Power & Light, about 12% growth at FPL Energy, and more shares outstanding. In March 2002, the Florida Public Service Commission approved an agreement that reduced (effective April 15, 2002) annual retail rates by $250 million, with the impact on 2002 revenues estimated at $178 million. Florida Power & Light is adding about 1,500 megawatts of generating capacity in 2002 and around 1,300 megawatts in 2003. Construction will begin for an additional 1,900 megawatts of generating capacity at two existing plants in 2003, with completion expected by 2005. FPL's pending acquisition of an 88.2% interest in the New Hampshire-based Seabrook nuclear facility (announced on April 15, 2002) is expected to close by the end of 2002, be modestly accretive in 2003, and add $0.10 to $0.12 a share for the following three years.

Valuation - 16-SEP-02

We would accumulate FPL shares. The stock was recently down about 8% in 2002 (compared to a nearly 20% decline for the S&P Index of Electric Utilities), as the earlier removal of uncertainty related to the March approval of a rate case agreement was offset by the impact of reduced EPS projections for 2002 and 2003. This follows a 21.4% decline in 2001 (compared to an 18.8% decline for the Index), when the stock was hurt by the termination of the Entergy merger, a consolidation of the 68% advance in 2000 (versus a 42% gain for the Index), and weakness of the wholesale power market. Over the long term, we expect EPS growth to average around 7% and for the dividend (recently yielding 4.5%) to be increased at an annual rate of about 3% to 4%. At 10X to 11X our 2003 EPS estimate of $4.95, the stock remains attractive for total return.

Key Stock Statistics

S&P EPS Est. 2002	4.75	Tang. Bk. Value/Share	34.59
P/E on S&P Est. 2002	12.4	Beta	0.03
S&P EPS Est. 2003	4.90	Shareholders	39,319
Dividend Rate/Share	2.32	Market cap. (B)	$ 10.7
Shs. outstg. (M)	182.5	Inst. holdings	64%
Avg. daily vol. (M)	1.048		

Value of $10,000 invested 5 years ago: $ 12,755

Fiscal Year Ending Dec. 31

	2002	2001	2000	1999	1998	1997
Revenues (Million $)						
1Q	1,843	1,941	1,468	1,412	1,338	1,445
2Q	2,248	2,166	1,670	1,614	1,592	1,587
3Q	2,353	2,529	2,087	1,892	1,999	1,859
4Q	—	1,839	1,857	1,520	1,631	1,478
Yr.	—	8,475	7,082	6,438	6,661	6,369
Earnings Per Share ($)						
1Q	0.98	0.65	0.71	1.22	0.63	0.58
2Q	1.46	1.30	1.20	0.45	1.02	0.95
3Q	0.85	1.98	1.84	1.70	1.66	1.52
4Q	E0.70	0.70	0.38	0.71	0.54	0.52
Yr.	E4.75	4.63	4.14	4.07	3.85	3.57

Next earnings report expected: mid January

Dividend Data (Dividends have been paid since 1944.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.580	Feb. 11	Feb. 20	Feb. 22	Mar. 15 '02
0.580	May. 29	Jun. 05	Jun. 07	Jun. 17 '02
0.580	Aug. 16	Aug. 28	Aug. 30	Sep. 16 '02
0.580	Oct. 18	Nov. 26	Nov. 29	Dec. 16 '02

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Item 20, Page 16

FPL Group, Inc.

30-NOV-02

Business Summary - 16-SEP-02

FPL Group is the holding company for Florida Power & Light Company and FPL Group Capital.

Florida Power & Light Company provides electricity to about 3.9 million customer accounts in an area covering nearly all of Florida's eastern seaboard, as well as the southern part of the state. The utility's electric revenues by customer class in 2001 were: residential, 56% (55% in 2000, 55% in 1999), commercial, 38% (36%, 37%); industrial, 3% (3%, 3%); and other, 3% (6%, 5%). The company owns and operates four nuclear units, two at Turkey Point and two at St. Lucie.

Capital spending for Florida Power & Light in 2001 totaled around $1.1 billion, versus $1.3 billion in 2000 and $924 million in 1999. The company projects capital spending of about $4.4 billion for 2002-2004, with $1.3 billion planned for 2002.

In March 1999, the Florida Public Service Commission approved a three-year agreement between Florida Power & Light and the State Public Counsel, resulting in a $350 million reduction in annual revenue, and a revenue sharing mechanism whereby two-thirds of retail base revenues beyond a threshold (from $3.4 billion in first year to $3.5 billion in third year) and 100% of revenues beyond a second threshold (from $3.56 billion to $3.66 billion) would be refunded to customers.

Wholly owned FPL Group Capital owns and funds FPL's non-utility operations. In January 1998, it formed FPL Energy, to manage existing non-regulated investments and to pursue new investments in the domestic and international energy markets.

As of December 31, 2001, FPL Energy had ownership interest in operating independent power projects with a net generating capacity of 5,063 megawatts. Fuel sources for these projects in 2001 were: natural gas, 46%; wind, 28%; oil, 15%; hydro, 7%; and other, 4%.

FPL Energy's capital expenditures in 2001 were about $1.98 billion, versus $507 million in 2000 and $1.54 billion in 1999. It expects to add 1,000 to 2000 megawatts (mw) of new wind generation by the end of 2003. It also plans to complete the construction of 8 other plants (with a capacity of about 5,000 mw), which would bring its total power generating capacity to around 11,000 to 12,000 mw by the end of 2004.

In January 2000, FPL formed FPL FiberNet through the transfer of its existing 1,600 miles of fiber-optic lines. As of December 31, 2001, the network consisted of about 2,500 route miles. The unit sells its capacity to FPL, and to customers that include telephone, cable television, Internet, and other telecommunications companies.

In April 2001, FPL agreed to terminate a merger agreement (announced on July 31, 2000) with New Orleans-based Entergy Corp. (ETR).

Per Share Data ($) (Year Ended Dec. 31)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Tangible Bk. Val.	34.18	31.78	30.00	28.32	26.62	24.61	24.06	22.50	21.58	19.84
Earnings	4.62	4.14	4.07	3.85	3.57	3.33	3.16	2.91	2.30	2.65
Dividends	2.24	2.16	2.08	2.00	1.92	1.84	1.76	1.68	2.47	2.43
Payout Ratio	48%	52%	51%	52%	54%	55%	56%	65%	107%	92%
Prices - High	71.62	73.00	61.93	72.56	60.00	48.12	46.50	39.12	41.00	38.37
- Low	51.21	36.37	41.12	56.06	42.62	41.50	34.00	26.87	35.50	32.00
P/E Ratio - High	16	18	15	19	17	14	15	13	18	14
- Low	11	9	10	15	12	12	11	9	15	12
Income Statement Analysis (Million $)										
Revs.	8,475	7,082	6,438	6,661	6,369	6,037	5,592	5,423	5,316	5,193
Depr.	983	1,032	1,040	1,284	1,061	960	918	724	598	554
Maint.	NA	NA	NA	NA	NA	NA	NA	NA	347	358
Fxd. Chgs. Cov.	4.5	4.5	5.0	NA	4.0	4.0	3.6	3.2	3.0	3.1
Constr. Credits	NA	Nil	Nil	Nil	Nil	2.0	15.0	24.0	66.2	57.8
Eff. Tax Rate	33%	32%	32%	30%	33%	34%	37%	37%	37%	36%
Net Inc.	781	704	697	664	618	579	553	519	429	467
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	23,388	21,022	19,554	17,952	17,820	17,034	16,725	16,390	15,881	14,972
Cap. Exp.	1,544	1,299	861	617	551	488	671	906	1,248	1,270
Net Prop.	11,662	9,934	9,264	8,555	9,354	9,384	9,852	10,203	10,289	9,866
Capitalization:										
LT Debt	5,084	4,202	3,704	2,347	2,949	3,144	3,377	4,050	4,020	4,280
% LT Debt	46	43	41	31	37	39	42	47	46	49
Pfd.	Nil	Nil	Nil	226	226	332	340	545	548	551
% Pfd.	Nil	Nil	Nil	2.90	2.80	4.10	4.20	6.30	6.30	6.40
Common	6,015	5,593	5,370	5,126	4,845	4,592	4,392	4,197	4,101	3,836
% Common	54	57	59	67	60	57	54	49	47	44
Total Cap.	12,629	11,442	10,337	9,159	9,493	10,201	10,299	10,917	10,722	10,732
% Oper. Ratio	87.6	86.3	88.0	85.4	85.5	85.5	84.5	84.5	86.4	85.1
% Earn. on Net Prop.	10.3	12.9	18.2	14.0	13.1	9.1	11.9	8.2	7.2	8.2
% Return On Revs.	9.2	9.9	10.8	10.0	9.7	9.6	9.9	9.6	8.1	9.0
% Return On Invest. Capital	9.6	9.7	11.4	10.7	9.4	8.5	NM	7.8	7.0	8.0
% Return On Com. Equity	13.5	12.8	13.3	13.3	13.1	12.9	12.9	12.5	10.8	13.0

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office—700 Universe Blvd., Juno Beach, FL 33408. **Tel**—(561) 694-4000. **Website**—http://www.fpl.com **Chrmn, Pres & CEO**—L. Hay III. **VP-Fin & CFO**—M. P. Dewhurst. **Secy**—D. P. Coyle. **Investor Contact**—Lisa Kuzel (561-694-4697). **Dirs**—H. J. Arnelle, S. S. Barrat, R. M. Beall II, J. H. Brown, A. M. Codina, W. D. Dover, A. W. Dreyfoos Jr., P. J. Evanson, L. Hay III, F. V. Malek, P. R. Tregurtha, F. G. Zarb. **Transfer Agent & Registrar**—EquiServe, Providence, RI. **Incorporated**—in Florida in 1925; reincorporated in Florida in 1984. **Empl**— 10,992. **S&P Analyst:** Justin McCann/PTW

STANDARD
&POOR'S
STOCK REPORTS

MGE Energy

NASDAQ Symbol **MGEE**

30-NOV-02

Sub-Industry: Electric Utilities

Summary: The principal subsidiary of this public utility holding company is Madison Gas & Electric, which generates and distributes electricity and distributes natural gas in Wisconsin.

Quantitative Evaluations

Outlook (1 Lowest—5 Highest)
• NA

Fair Value
• NA

Risk
• Low

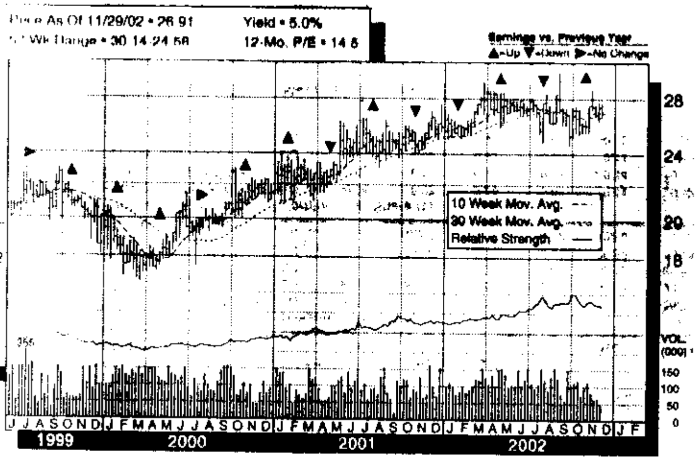
Earn./Div. Rank
• B+

Technical Eval.
• Bullish since 11/02

Rel. Strength Rank (1 Lowest—99 Highest)
• 42

Insider Activity
• NA

Price As Of 11/29/02 • 26.91 | Yield • 5.0%
52 Wk Range • 30.14-24.58 | 12-Mo. P/E • 14.5



Business Profile - 23-SEP-02

In August, Madison Gas & Electric adopted the holding company format, with each common share exchanged share for share for MGE Energy, Inc., common shares. Management believes the holding company structure will let it raise capital in the financial markets in order to build and own new power plants to meet customer needs. It plans to continue to focus on the utility business in its local communities. Also in August, directors raised the quarterly dividend 0.8%, to $0.3358 a share from $0.333, with the September 15 payment. MGEE has increased its dividend in each of the past 23 years. Effective January 1, 2002, the Public Service Commission of Wisconsin (PSCW) authorized the company to increase electric rates by 5.7%, and gas rates by 0.6%.

Operational Review - 23-SEP-02

Total operating revenues in the first half of 2002 declined 10%, year to year. Profitability benefited from lower fuel costs for electric generation, due to the decline in natural gas costs; and from lower interest rates and reduced short-term debt levels. Net income advanced 2.8%, to $15.4 million ($0.90 a share, based on 2.8% more shares), from $15.0 million ($0.90). Results in the 2001 period exclude a special charge of $0.01 a share from the cumulative effect of an accounting change.

Stock Performance - 29-NOV-02

In the past 30 trading days, MGEE's shares have increased 3%, compared to a 6% rise in the S&P 500. Average trading volume for the past five days was 12,669 shares, compared with the 40-day moving average of 16,756 shares.

Key Stock Statistics

Dividend Rate/Share	1.34	Shareholders	18,000
Shs. outstg. (M)	17.5	Market cap. (B)	$0.470
Avg. daily vol. (M)	0.014	Inst. holdings	22%
Tang. Bk. Value/Share	13.46		
Beta	-0.01		

Value of $10,000 invested 5 years ago: $ 17,662

Fiscal Year Ending Dec. 31

	2002	2001	2000	1999	1998	1997
Revenues (Million $)						
1Q	96.27	122.0	84.54	79.53	75.12	84.91
2Q	74.00	70.26	64.16	57.16	54.56	53.25
3Q	79.43	65.93	71.96	64.48	57.78	53.16
4Q	—	75.49	103.4	72.86	62.30	73.33
Yr.	—	333.7	324.1	274.0	249.8	264.6
Earnings Per Share ($)						
1Q	0.64	0.56	0.62	0.56	0.62	0.50
2Q	0.26	0.32	0.15	0.15	0.15	0.16
3Q	0.60	0.36	0.51	0.38	0.36	0.35
4Q	—	0.37	0.39	0.38	0.34	0.39
Yr.	—	1.62	1.67	1.46	1.38	1.40

Next earnings report expected: early February

Dividend Data (Dividends have been paid since 1909.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.333	Feb. 22	Feb. 27	Mar. 01	Mar. 15 '02
0.333	May. 14	May. 29	Jun. 01	Jun. 15 '02
0.336	Aug. 16	Aug. 28	Sep. 01	Sep. 15 '02
0.336	Nov. 15	Nov. 26	Dec. 01	Dec. 15 '02

Item 20, page 17

STANDARD
&POOR'S
STOCK REPORTS

MGE Energy, Inc.

30-NOV-02

Business Summary - 23-SEP-02

MGE Energy, Inc., is the holding company, formed in August 2002, for Madison Gas and Electric, a Wisconsin-based public utility, which expects its electric and gas sales to increase 1% to [illegible] annually through the end of 2006. It also anticipates peak demand growth of approximately [illegible] through 2006. The company forecasts that its service territory will remain well insulated against economic downturns. MGEE believes favorable distribution costs, a low percentage of industrial customers, and lower risk of being unable to recover previous investments are factors that should contribute to its success in a deregulated [illegible] industry.

Madison Gas & Electric [illegible] and distributes electricity to [illegible] customers throughout [illegible] natural gas to [illegible] miles of service territory [illegible]

In 2001, residential and commercial electric service revenues accounted for 36% and 49% of total electric revenues, respectively. The remainder of 2001 electric revenues were derived from industrial sales, [illegible]; sales to public authorities including the University of Wisconsin, 7%; and sales to other utilities and other 2%. Electric operations comprised [illegible] of the company's 2001 operating revenues.

Residential and commercial customers contributed 58% and 39% of total 2001 gas revenues, respectively. Gas operations accounted for 39% of the company's operating revenues. Transportation service accounted for just over 2% of total 2001 gas revenues.

MGEE owns a 22% interest in the Columbia Energy Center. Columbia, with two 527 megawatt units, uses coal from Wyoming and Montana coal fields.

The company and the University of Wisconsin (UW) are continuing to work on a proposal to build a natural gas-fired cogeneration plant, expected to cost [illegible] million to $195 million. The plant will help to meet the future needs of UW and MGEE customers. The facility is expected to start operating in 2004.

In December 2000, the company [illegible] du Chien [illegible] natural gas [illegible] tric-Wisconsin Gas for about [illegible] about 3,300 residential and [illegible] through the acquisition.

Capital expenditures for 2002 through 200[illegible] are expected to average about $46 million per year.

The company sold its 17.8% ownership in [illegible] Kewaunee Nuclear Power Plant to Wisconsin [illegible] Service Corp. (WPSC) in September 2001. [illegible] received a cash payment from WPSC upon [illegible] consisted of Kewaunee's book value ($8.9 million) plus the book value of other related assets.

Per Share Data ($) (Year Ended Dec. 31)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Tangible Bk. Val.	[illegible]	12.07	11.43	11.27	11.19	11.07	11.94	11.71	[illegible]	11.24
Earnings	[illegible]	1.67	1.46	1.38	1.40	0.40	1.49	1.53	[illegible]	1.45
Dividends	[illegible]	1.32	1.31	1.30	1.29	1.27	1.26	1.25	[illegible]	1.19
Payout Ratio	[illegible]	79%	89%	94%	92%	[illegible]	85%	82%	[illegible]	80%
Prices - High	27.80	23.66	23.87	23.75	23.75	27.50	23.33	28.33	24.50	26.00
- Low	20.07	16.75	16.87	20.62	19.50	19.62	20.36	20.66	20.16	19.00
P/E Ratio - High	[illegible]	14	16	17	17	69	16	18	[illegible]	18
- Low	[illegible]	10	11	15	13	49	14	14	[illegible]	13
Income Statement Analysis (Million $)										
Revs.	334	324	274	250	265	253	249	245	[illegible]	228
Depr.	[illegible]	35.1	35.2	33.2	28.3	25.5	24.8	22.4	[illegible]	21.4
Maint.	[illegible]	15.5	13.5	16.2	12.7	12.4	11.9	12.4	[illegible]	12.5
Fxd. Chgs. Cov.	[illegible]	4.0	[illegible]	4.2	4.4	2.7	[illegible]	[illegible]	[illegible]	2.7
Constr. Credits	[illegible]	0.5	0.5	0.2	0.0	0.5	[illegible]	[illegible]	[illegible]	0.0
Eff. Tax Rate	[illegible]	37%	34%	33%	36%	42%	37%	[illegible]	[illegible]	36%
Net Inc.	27.[illegible]	27.4	23.7	22.2	22.5	6.4	24.9	26.0	[illegible]	23.8
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	746	956	883	621	701	740	716	695	673	644
Cap. Exp.	42.0	73.6	51.0	30.8	21.6	21.9	19.2	26.4	23.6	16.4
Net Prop.	[illegible]	446	396	374	298	365	367	372	369	359
Capitalization:										
LT Debt	[illegible]	183	149	161	121	129	129	131	129	122
% LT Debt	42	46	44	47	42	42	40	40	39	40
Pfd.	Nil	Nil	Nil	Nil	Nil	Nil	Nil	8.1	[illegible]	5.6
% Pfd.	Nil	Nil	Nil	Nil	Nil	Nil	Nil	1.60	1.78	1.80
Common	216	200	186	182	181	179	193	189	186	180
% Common	58	52	58	53	58	58	60	58	60	59
Total Cap.	436	436	386	397	369	366	389	395	379	405
% Oper. Ratio	87.0	87.6	88.1	88.1	88.3	87.6	86.4	86.1	86.0	84.6
% Earn. on Net Prop.	8.2	9.5	8.4	8.9	10.2	6.6	9.2	9.2	9.3	8.7
% Return On Revs.	8.2	8.4	8.7	8.9	8.5	2.5	9.6	10.2	10.1	10.4
% Return On Invest. Capital	9.4	10.1	9.2	11.5	8.9	7.8	9.1	9.3	9.4	9.2
% Return On Com. Equity	13.1	14.2	12.9	12.2	12.5	3.5	12.5	13.0	13.8	13.1

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office—133 S. Blair Street, P.O. Box 1231, Madison, WI 53703-1231. Tel—(608) 252-7000. Website—http://www.mge.com [illegible] CEO—G. J. Wolter. Vice Chrmn—D. C. Mebane. VP-Fin & Investor Contact—Terry A. Hanson (608-252-4744). VP & Treas—J. [illegible] VP & Secy—M. A. Frankel. Dirs—J. M. [illegible], R. E. Blaney, F. C. Vasilings, D. C. Mebane, R. M. Millner, F. E. Mohs, J. R. Nevin, D. R. [illegible], H. L. Swanson, G. J. Wolter. Transfer Agent & Registrar—Continental Stock Transfer & Trust Co., NYC. Incorporated—in Wisconsin in 1896. Empl— 676. S&P Analyst: J. J. Schemitsch/MF

STANDARD
&POOR'S

STOCK REPORTS

PNM Resources

NYSE Symbol **PNM**

In S&P MidCap 400

30-NOV-02

Sub-Industry: Electric Utilities

Summary: This company operates electric and gas utilities in New Mexico through Public Service Company of New Mexico, and sells wholesale power in the western U.S.

Quantitative Evaluations

Outlook (1 Lowest - 5 Highest)
• 4

Fair Value
• 26.40

Risk
• **Average**

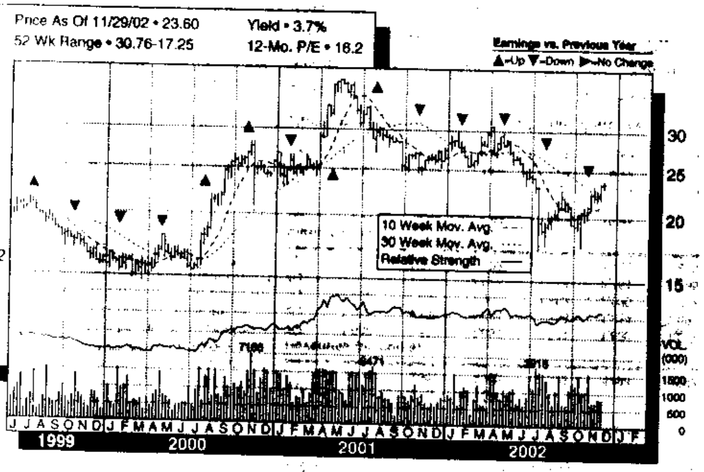
Fair Div. Rank
• B

Technical Eval.
• **Bullish** since 10/02

Rel. Strength Rank (1 Lowest--99 Highest)
• 72

Insider Activity
• NA

Price As Of 11/29/02 • 23.60 | Yield • 3.7%
52 Wk Range • 30.76-17.25 | 12-Mo. P/E • 16.2



Business Profile - 16-JUL-02

In July, PNM said continued weakness in the wholesale power market had led it to reduce its 2002 EPS estimate. The company projected operating EPS of $1.90 to $2.10 for the full year, with second quarter EPS of about $0.25. Several factors, including an abundance of available hydropower from the Pacific Northwest, cooler weather through May and June, low natural gas prices, a number of new generating plants coming on line, and a continued slowdown in the regional economy all contributed to holding down power prices in 2002. To preserve its financial position, PNM intends to control expenses and limit capital spending. Construction expenditures for 2002, originally budgeted at $391 million, have been reduced to $280 million.

Operational Review - 16-JUL-02

Total operating revenues in the first quarter of 2002 declined 57%, year to year, as electric and gas revenues fell 63% and 43%, respectively. Profitability was hurt by a weak regional economy and mild weather in the western U.S. that reduced prices for power well below the 2001 level. Wholesale revenues averaged $24 per megawatt hour, down from an average of $135. Despite the absence of nonrecurring losses that reduced EPS by $0.18, net income dropped 61%, to $24.9 million ($0.63 a share, after preferred dividends), from $63.6 million ($1.60).

Stock Performance - 29-NOV-02

In the past 30 trading days, PNM's shares have increased 16%, compared to a 6% rise in the S&P 500. Average trading volume for the past five days was 197,725 shares, compared with the 40-day moving average of 227,367 shares.

Key Stock Statistics

Dividend Rate/Share	0.88	Shareholders	15,389
Shs. outstg. (M)	39.1	Market cap. (B)	$0.923
Avg. daily vol. (M)	0.159	Inst. holdings	82%
Tang. Bk. Value/Share	26.17		
Beta	0.58		

Value of $10,000 invested 5 years ago: $ 13,870

Fiscal Year Ending Dec. 31

	2002	2001	2000	1999	1998	1997
Revenues (Million $)						
1Q	314.0	736.5	321.3	272.8	329.8	298.8
2Q	264.6	666.1	273.2	261.4	309.0	238.7
3Q	289.4	621.9	499.5	340.6	194.6	286.0
4Q	—	327.6	461.5	262.8	259.0	311.7
Yr.	—	2,352	1,611	1,158	1,092	1,135
Earnings Per Share ($)						
1Q	0.63	1.60	0.55	0.56	0.61	0.59
2Q	0.28	1.24	0.45	0.44	0.38	0.37
3Q	0.46	0.82	1.18	0.62	0.83	0.57
4Q	—	0.11	0.35	0.41	0.44	0.38
Yr.	—	3.77	2.53	1.93	2.26	1.91

Next earnings report expected: late January

Dividend Data (Dividends have been paid since 1996.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.200	Dec. 11	Jan. 31	Feb. 04	Feb. 15 '02
0.220	Feb. 19	Apr. 30	May. 02	May. 17 '02
0.220	Jul. 17	Jul. 31	Aug. 02	Aug. 16 '02
0.220	Oct. 01	Oct. 31	Nov. 04	Nov. 15 '02

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Item 20, page 18

STANDARD &POOR'S

STOCK REPORTS

PNM Resources, Inc.

30-NOV-02

Business Summary - [illegible]

PNM Resources is the holding company for Public Service Company of New Mexico, a utility involved in the generation, transmission, distribution and sale of electricity and natural gas in New Mexico; it also sells power in the wholesale market in the western U.S. Under the Electric Utility Industry Restructuring Act, PNM is required to separate deregulated activities from regulated activities through the creation of at least two separate corporations. In December 2001, the company reorganized its operations into a holding company, PNM Resources, Inc., separating the company into the two required subsidiaries. The company conducts operations through three business units: utility operations; generation and trading operations; and unregulated operations.

Utility operations include both electric and natural gas offerings. [illegible] retail electric [illegible] central New Mexico. At [illegible] PNM had about 379,000 [illegible]. The company [illegible] of the [illegible] principal [illegible] of [illegible] to the company's utility [illegible] to cover all of its jurisdictional electric demand. [illegible]

on sales to firm requirements wholesale [illegible]. The third market consists of contract sales to [illegible], with PNM committing itself to providing [illegible] amount of megawatts (MW) in a given time period. The fourth market consists of energy sales from [illegible] capacity made on an hourly basis at varying spot market prices. At December 31, 2001, total net generation capacity of facilities owned or leased by the company was 1,521 MW, with the San Juan Generating [illegible] at 765 MW; Four Corners 192 MW; Palo Verde [illegible] Generating Station 390 MW, Reeves Station [illegible] MW; and Las Vegas Station 20 MW. PNM also [illegible] power in the market under contract.

Unregulated operations are conducted [illegible] owned Avistar. In July 2001, Avistar's directors decided to wind down all operations except for its [illegible] business unit, which provides maintenance [illegible] to the electric power industry. Avistar had previously divested its Energy Partners business, and [illegible] dated Axon Field services and Pathways [illegible]. The company recorded charges of $18.1 [illegible] reflect these activities, as well as the [illegible] Avistar [illegible].

In January 2002, PNM [illegible] acquisition of Western Resources' electric [illegible] nesses, citing regulatory rulings in Kansas [illegible] believed made it impossible to complete the [illegible] under the original terms.

Per Share Data ($) (Year Ended Dec. 31)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Tangible Bk. Val.	[illegible]	[illegible]	[illegible]	20.61	19.25	18.04	16.80	15.09	[illegible]	15.00
Earnings	[illegible]	[illegible]	[illegible]	2.26	1.92	1.79	1.72	1.77	[illegible]	[illegible]
Dividends	[illegible]	0.80	0.80	0.77	0.63	0.38	Nil	Nil	[illegible]	Nil
Payout Ratio	[illegible]	32%	40%	34%	33%	21%	Nil	Nil	[illegible]	Nil
Prices - High	37.80	28.31	21.50	24.75	23.88	20.50	18.25	13.62	[illegible]	14.12
- Low	[illegible]	14.69	14.94	17.37	15.75	17.25	12.12	11.00	[illegible]	9.37
P/E Ratio - High	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Low	6	6	7	8	8	10	7	6	NM	NM
Income Statement Analysis (Million $)										
Revs.	2,352	1,611	1,158	1,092	1,135	883	806	906	[illegible]	852
Depr.	[illegible]	93.1	[illegible]	86.1	82.7	78.1	80.9	74.1	[illegible]	79.3
Maint.	NA	NA	NA	51.7	52.8	49.7	55.6	61.4	[illegible]	64.3
Fxd. Chgs. Cov.	4.3	3.6	2.7	3.4	3.2	3.0	3.0	2.5	[illegible]	NM
Constr. Credits	NA	NA	Nil	Nil	Nil	Nil	Nil	0.3	[illegible]	1.2
Eff. Tax Rate	36%	42%	36%	37%	37%	36%	29%	36%	NM	NM
Net Inc.	150	101	79.8	95.1	81.0	72.6	75.6	80.3	[illegible]	104
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	[illegible]	2,774	2,684	3,116	2,881	2,490	2,467	2,566	[illegible]	2,690
Cap. Exp.	[illegible]	147	96.3	129	128	88.8	107	119	[illegible]	95.0
Net Prop.	[illegible]	1,621	[illegible]	2,118	1,878	1,553	1,574	1,697	[illegible]	1,877
Capitalization:										
LT Debt	[illegible]	[illegible]	[illegible]	1,009	714	714	728	752	[illegible]	911
% LT Debt	52	50	52	53	47	48	46	52	[illegible]	56
Pfd.	12.8	12.8	12.8	12.8	12.8	12.8	12.8	77.0	83.4	84.7
% Pfd.	0.60	0.66	0.66	0.60	0.90	0.80	0.80	5.30	5.20	5.20
Common	985	926	887	860	804	754	703	631	565	626
% Common	48	49	47	45	53	46	44	43	35	39
Total Cap.	2,026	2,118	2,106	2,082	1,710	1,654	1,589	1,609	1,721	1,807
% Oper. Ratio	90.8	93.0	91.1	84.2	89.8	85.8	86.0	83.3	84.7	86.7
% Earn. on Net Prop.	13.1	6.3	7.5	6.8	6.7	4.6	6.9	6.9	7.4	5.9
% Return On Revs.	6.4	6.3	6.9	8.7	7.1	8.3	9.3	8.9	NM	NM
% Return On Invest. Capital	10.4	7.9	7.2	8.3	10.9	7.9	11.5	9.1	1.4	NM
% Return On Com. Equity	15.8	11.1	9.0	11.3	10.3	9.8	10.9	12.4	NM	NM

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office—Alvarado Square, Albuquerque, NM 87158. Tel—(505) 241-2700. Website—http://www.pnm.com Chrmn, Pres & CEO—J. E. [illegible]. SVP & CFO—M. H. Maerki. SVP & Secy—P. T. Ortiz. Investor Contact—Barbara Barsky. Dirs—R. G. Armstrong, R. M. Chavez, J. A. Godwin, B. F. Montoya, M. T. Pacheco, T. F. Patlovich, R. M. Price, R. F. Roth, J. E. Sterba. Transfer Agent & Registrar—Co.'s office. Incorporated—in New Mexico in 2000. Empl— 2,675. S&P Analyst—J. J. Schemitsch/PMW

DARD
OR'S

STOCK REPORTS

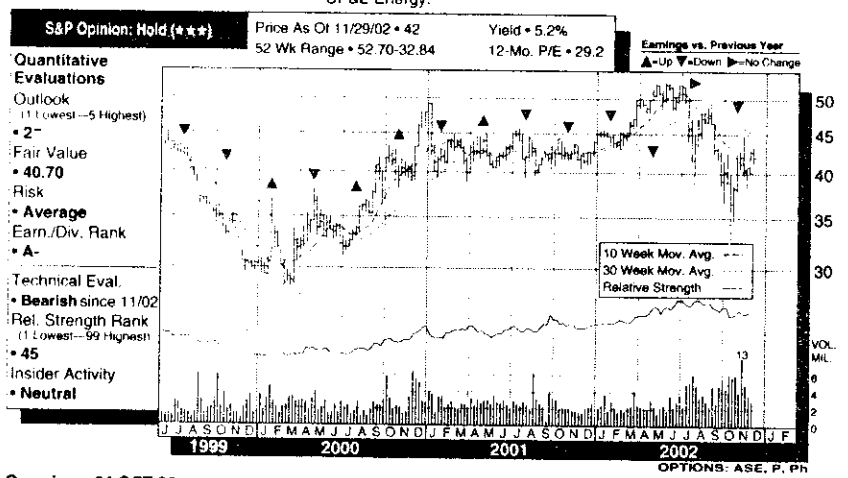
Progress Energy

NYSE Symbol **PGN**

In S&P 500

30-NOV-02 **Sub-Industry:** Electric Utilities

Summary: This holding company was renamed after the acquisition of St. Petersburg-based Florida Progress Corp. by Raleigh-based CP&L Energy.



Overview - 24-OCT-02

After an anticipated 15% advance in 2002 operating EPS (from 2001 operating EPS of $3.40), we expect EPS to increase about 3% in 2003. Our operating EPS estimate for 2002 includes about $0.45 from the elimination of goodwill amortization, but does not include a third quarter $1.04 writedown of the company's telecommunications investments. The sale of North Carolina Natural Gas is expected to close in mid-2003, with net proceeds to be used to pay down debt. Tax adjustments related to PGN's synthetic fuel investments reduced EPS by $0.27 in the second quarter of 2002, but this will be reversed by the end of the year. With the acquisition of Florida Progress (the company subsequently changed its name from CP&L Energy to Progress Energy), PGN more than doubled its customer base (to 2.5 million) and annual revenues (to over $8 billion). The company has become one of the 10 largest U.S. energy utilities (based on generating capacity).

Valuation - 24-OCT-02

Although the shares were recently down about 10% in 2002, they had performed relatively well in comparison to a far steeper decline for their electric utility peers. In fact, the stock has outperformed industry peers since the beginning of 2000. With net proceeds from the sale of North Carolina Natural Gas being used to reduce its debt, PGN is intent on strengthening its balance sheet and maintaining a solid investment grade credit rating. Since it has only a light maturity schedule over the next few years, it will probably not need to issue any additional long-term debt. With the stock trading at about 10X our 2003 operating EPS estimate of $4.05, we expect only modest price appreciation for the shares. However, with the dividend (expected to grow at an annual rate of about 3%) yielding over 5%, the stock is attractive for income-oriented investors.

Key Stock Statistics

S&P EPS Est. 2002	3.90	Tang. Bk. Value/Share	11.03
P/E on S&P Est. 2002	10.8	Beta	0.08
S&P EPS Est. 2003	3.85	Shareholders	79,058
Dividend Rate/Share	2.18	Market cap. (B)	$ 9.3
Shs. outstg. (M)	222.2	Inst. holdings	54%
Avg. daily vol. (M)	1.245		

Value of $10,000 invested 5 years ago: $ 14,456

Fiscal Year Ending Dec. 31

	2002	2001	2000	1999	1998	1997
Revenues (Million $)						
1Q	1,888	1,908	877.1	762.9	752.3	716.1
2Q	2,038	2,316	892.3	762.8	736.1	666.0
3Q	2,353	2,331	1,084	1,025	946.2	906.8
4Q	—	1,907	1,265	806.1	695.4	735.1
Yr.	—	8,461	4,119	3,358	3,130	3,024
Earnings Per Share ($)						
1Q	0.82	0.77	0.56	0.63	0.60	0.56
2Q	0.56	0.56	0.70	0.43	0.45	0.37
3Q	0.70	1.77	1.93	0.97	1.28	1.15
4Q	E0.77	-0.42	-0.07	0.51	0.42	0.58
Yr.	E3.90	2.68	3.03	2.55	2.75	2.66

Next earnings report expected: late January

Dividend Data (Dividends have been paid since 1937.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.545	Dec. 12	Jan. 08	Jan. 10	Feb. 01 '02
0.545	Mar. 20	Apr. 08	Apr. 10	May. 01 '02
0.545	May. 08	Jul. 08	Jul. 10	Aug. 01 '02
0.545	Sep. 20	Oct. 08	Oct. 10	Nov. 01 '02

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Item 2, page 19

STANDARD &POOR'S

STOCK REPORTS

Progress Energy, Inc.

30-NOV-02

Business Summary - 24-OCT-02

The company (formerly CP&L Energy) changed its name to Progress Energy, Inc., in December 2000.

On November 30, 2000, the company acquired Florida Progress Corp. (FPC) for about $5.4 billion in cash (65%) and stock (35%), plus the assumption of $2.7 billion of FPC debt. FPC is the holding company for Florida Power, which provides electricity to 1.4 million customers in central, northern and Gulf Coast Florida.

CP&L Energy was formed on June 20, 2000, as the holding company for Carolina Power & Light Co. (now operating as CP&L), a utility providing electricity to 1.3 million customers in eastern and western North Carolina and central South Carolina, and, after the July 1999 acquisition of North Carolina Natural Gas (through the issuance of about $354 million in stock), natural gas to 176,000 customers in eastern and southern North Carolina. On October 16, 2002, PGN announced an agreement to sell North Carolina Natural Gas for $425 million in cash. The sale is expected to close in mid-2003.

Following the FPC acquisition, the holding company was organized into five primary units: Energy Delivery, which oversees transmission and distribution operations for Carolina Power & Light and Florida Power; Energy Supply, which oversees generation operations, energy trading and system planning; Progress Ventures, which is involved in merchant generation ownership, wholesale energy marketing and trading operation, and fuel extraction, manufacturing and delivering; Energy Services, which oversees NCNG and energy management services; and a Service Company to support the combined company.

In 2001, the electric operations accounted for 77.5% of PGN's consolidated revenues; the diversified businesses, 18.7%; and the natural gas operations, 3.8%.

Carolina Power & Light received authorization from the North Carolina Utility Commission (in December 1998) and the South Carolina Public Service Commission (in January 1999) to accelerate the amortization of its nuclear generating assets, effective from January 1, 2000, through 2004. Annual amortization will range from $106 million to $150 million, for a total of $750 million.

The company's subsidiaries include Progress Telecom, a super-regional carrier with a network that stretches across five states, from New York to Miami, FL, with gateways to Latin America; Caronet, which provides fiber-optic telecommunications services; and Progress Rail Services, which supplies railroad and transit system products and services. PGN also has a 100% interest in Strategic Resource Solutions (SRS), which specializes in facilities and energy management software, systems and services.

Per Share Data ($) (Year Ended Dec. 31)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Tangible Bk. Val.	10.58	7.48	19.43	19.20	18.18	17.16	16.36	15.95	15.86	15.36
Earnings	2.64	3.03	2.55	2.75	2.66	2.66	2.48	2.03	2.10	2.36
Dividends	2.12	2.06	2.00	1.94	1.88	1.82	1.76	1.70	1.64	1.58
Payout Ratio	80%	68%	78%	71%	71%	68%	71%	84%	78%	67%
Prices - High	49.25	49.37	47.87	49.62	42.68	38.75	34.62	30.00	34.62	28.18
- Low	38.78	28.25	29.25	39.18	32.75	33.75	26.12	22.50	27.00	24.43
P/E Ratio - High	19	16	19	18	16	15	14	15	16	12
- Low	15	9	11	14	12	13	11	11	13	10
Income Statement Analysis (Million $)										
Revs.	8,461	4,119	3,358	3,130	3,024	2,996	3,007	2,877	2,895	2,767
Depr.	1,090	740	496	487	482	387	364	398	414	398
Maint.	NA	NA	NA	NA	NA	NA	197	207	235	248
Fxd. Chgs. Cov.	1.8	2.6	4.2	4.5	4.3	4.1	3.7	3.4	3.2	3.2
Constr. Credits	18.0	20.7	11.5	6.8	4.9	6.4	8.5	9.5	15.0	11.0
Eff. Tax Rate	NM	30%	40%	39%	38%	41%	39%	35%	35%	37%
Net Inc.	542	478	382	399	388	391	373	313	346	3.0
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	22,541	21,009	12,299	10,797	10,475	10,197	9,822	9,546	9,330	9,058
Cap. Exp.	1,216	950	765	527	450	457	344	301	389	334
Net Prop.	12,445	11,677	7,257	6,300	6,294	6,400	6,329	6,349	6,432	6,426
Capitalization:										
LT Debt	9,577	5,983	3,029	2,614	2,416	2,526	2,610	2,531	2,585	2,675
% LT Debt	61	52	47	46	46	47	49	48	48	50
Pfd.	Nil	Nil	59.4	59.4	59.4	144	144	144	144	144
% Pfd.	Nil	Nil	0.91	1.06	1.10	2.70	2.70	2.70	2.70	2.70
Common	6,004	5,424	3,413	2,949	2,919	2,690	2,575	2,586	2,632	2,534
% Common	39	48	52	52	53	50	48	49	49	47
Total Cap.	17,241	13,476	8,337	7,514	7,239	7,420	7,288	7,141	7,210	6,673
% Oper. Ratio	83.5	87.1	82.4	79.3	80.6	82.8	82.3	84.7	83.8	80.4
% Earn. on Net Prop.	10.3	7.6	12.1	10.2	8.9	8.1	8.4	7.0	7.3	8.4
% Return On Revs.	6.4	11.6	11.4	12.8	12.8	13.1	12.4	10.9	12.0	13.7
% Return On Invest. Capital	9.2	7.1	7.3	7.8	7.7	7.8	8.0	7.1	8.1	9.2
% Return On Com. Equity	9.4	10.8	11.9	13.7	13.9	14.5	14.1	11.6	13.0	15.4

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office—410 South Wilmington St., Raleigh, NC 27601-1748. **Tel**—(919) 546-6111. **Website**—http://www.progress-energy.com **Chrmn, Pres & CEO**—W. Cavanaugh III. **EVP & CFO**—P. M. Scott III. **EVP & Secy**—W. D. Johnson. **Investor Contact**—Robert F. Drennan Jr. (919-546-7474). **Dirs**—E. B. Borden, D. L. Burner, W. Cavanaugh III, C. W. Coker, R. L. Daugherty, W. D. Frederick Jr., W. O. McCoy, E. M. McKee, J. H. Mullin III, R. A. Nunis, C. A. Saladrigas, J. T. Wilson, J. G. Wittner. **Transfer Agent & Registrar**—EquiServe Trust Co., Providence, RI. **Incorporated**—in North Carolina in 1926. **Empl**— 16,200. **S&P Analyst:** Justin McCann/PMW

STANDARD &POOR'S

Southern Co.

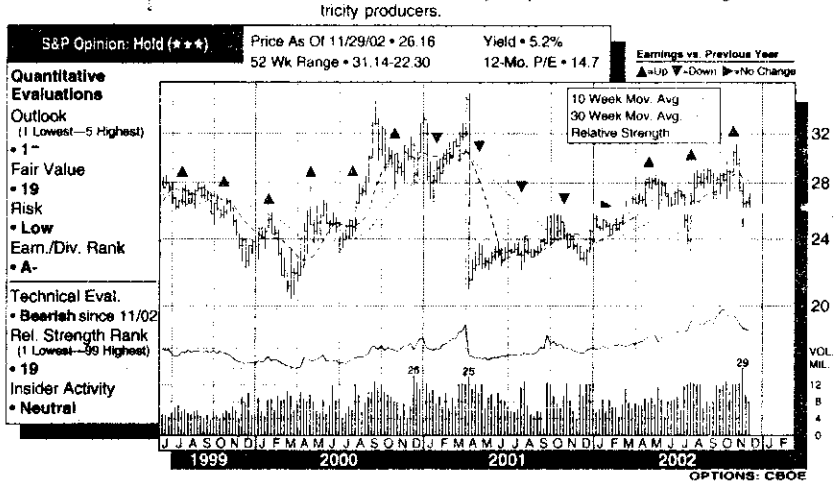
NYSE Symbol **SO**

STOCK REPORTS

In S&P 500

30-NOV-02 **Sub-Industry:** Electric Utilities

Summary: This Atlanta-based energy holding company, which spun off its Mirant subsidiary in April 2001, is one of the largest U.S. electricity producers.



Overview - 06-NOV-02

After an anticipated 10% increase in 2002 (from 2001 EPS from continuing operations of $1.61), we expect EPS to increase about 4% in 2003. After the April 2001 spinoff of Mirant (NYSE: MIR), SO is focusing on its five regulated utilities, its unregulated generation and wholesale marketing operations in the Southeast, and its unregulated energy-related retail businesses. About 35% to 40% of SO's earnings are now seen coming in the first half of the year, and 60% to 65% in the second half. With long-term contracts reducing risk, the wholesale power unit should be able to double its income to about $200 million by 2005. Over the same period, annual income from the unregulated retail units is expected to grow five-fold, to about $50 million. With the utilities seeing annual customer growth of 2% and sales growth of 3%, we expect SO to average annual EPS growth of more than 5% over the long term, aided by 15% growth from its expanding wholesale operations.

Valuation - 06-NOV-02

The stock has outperformed the electric utility sector thus far in 2002. This follows two years in which it performed roughly in line with its industry peers. The prime reason for SO's year to date outperformance appears to be the relative predictability of its earnings stream and its strong credit rating, which are in marked contrast to the problems many of its peers have had. However, while the stock has benefited from SO's low risk profile, we see little upside potential from its current level. At around 16 times our 2003 EPS estimate of $1.85, the shares are trading at a distinct premium to their peers. Still, the dividend (recently yielding about 4.7%) is very secure, and with the payout ratio (77% of our 2002 EPS estimate of $1.78) close to the targeted ratio of 75%, income-oriented investors can expect future dividend increases in the 2% to 3% range.

Key Stock Statistics

S&P EPS Est. 2002	1.78	Tang. Bk. Value/Share	10.87
P/E on S&P Est. 2002	14.7	Beta	-0.40
S&P EPS Est. 2003	1.85	Shareholders	150,242
Dividend Rate/Share	1.37	Market cap. (B)	$ 18.7
Shs. outstg. (M)	713.5	Inst. holdings	35%
Avg. daily vol. (M)	3.155		

Value of $10,000 invested 5 years ago: NA

Fiscal Year Ending Dec. 31

	2002	2001	2000	1999	1998	1997
Revenues (Million $)						
1Q	2,214	2,270	2,052	2,442	2,514	2,585
2Q	2,631	2,561	2,522	2,791	2,913	2,717
3Q	3,248	3,165	3,198	3,737	3,457	4,071
4Q	—	2,200	2,294	2,616	2,519	3,238
Yr.	—	10,200	10,066	11,585	11,403	12,611
Earnings Per Share ($)						
1Q	0.32	0.26	0.38	0.32	0.35	0.28
2Q	0.48	0.40	0.52	0.45	0.39	0.31
3Q	0.83	0.79	0.95	0.90	0.74	0.55
4Q	E0.15	0.16	0.16	0.19	-0.08	0.28
Yr	E1.78	1.61	1.52	1.86	1.40	1.42

Next earnings report expected: late January

Dividend Data (Dividends have been paid since 1948.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.335	Jan. 22	Jan. 31	Feb. 04	Mar. 06 '02
0.335	Apr. 15	May. 02	May. 06	Jun. 06 '02
0.343	Jul. 15	Aug. 01	Aug. 05	Sep. 06 '02
0.343	Oct. 21	Oct. 31	Nov. 04	Dec. 06 '02

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Item 20, Page 2

STANDARD &POOR'S

The Southern Company

STOCK REPORTS

30-NOV-02

Business Summary - 06-NOV-02

The Southern Company is one of the largest U.S. producers of electricity.

With nearly 35,000 megawatts of generating capacity, this Atlanta-based utility holding company serves approximately 4 million customers in the Southeast through five integrated subsidiaries: Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric & Power. The Southern Power subsidiary serves both the utility subsidiaries and the wholesale power market.

On April 2, 2001, the company completed the spinoff of its remaining interest in Mirant Corp. (NYSE: MIR). In October 3, 2000, SO completed an IPO (announced in April 2000) of 19.7% of its Southern Energy subsidiary (renamed Mirant on January 19, 2001), a global independent power producer with energy marketing and risk management businesses. Gross proceeds from the IPO to the company were $1.47 billion. Mirant has operations in the U.S., Europe and Asia.

SO's domestic electric revenues by customer class in 2001 were: residential, 33.6%; commercial, 30.8%; industrial, 22.3%; wholesale, 12.2%, and other, 0.9%.

Sources of fuel for the Southern system in 2001 were: coal, 72% (78% in 2000); nuclear, 16% (16%); hydroelectric, 3% (2%) and oil/gas, 9% (4%).

In January 2001, the company announced the formation of a new subsidiary, Southern Power Company (SPC), to own, manage and finance wholesale generating assets in the Southeast. Energy from SPC's assets was to be marketed to wholesale customers through the Southern Company Generation and Energy Marketing subsidiary. SPC had 800 megawatts of generating capacity at December 31, 2001. An additional 3,900 megawatts of generating capacity were under construction, and were expected to be in operation by the end of 2003.

The company operates, through subsidiaries, 34 hydroelectric generating stations, 34 fossil fuel generating stations, three nuclear generating stations, and five combined cycle/cogeneration stations. SO has projected its construction additions or acquisitions of property during the period 2002 through 2004 at $2.8 billion in 2002, $2.1 billion in 2003, and $2.3 billion in 2004.

SO is also the parent company for a system service company that provides, at cost, specialized service to the parent and its subsidiaries; Southern Telecom, which provides wholesale fiber optic solutions to telecommunication providers in the Southeast; Southern Company Energy Solutions, which develops business opportunities related to energy products and services; Southern Communications Services (Southern LINC), which provides digital, wireless communications services to the five utility subsidiaries, as well as to the general public within the Southeast; and Southern Nuclear, which provides services to Southern Company's nuclear power plants.

Per Share Data ($) (Year Ended Dec. 31)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Tangible Bk. Val.	10.87	15.12	6.14	8.77	10.52	12.49	11.99	12.46	NA	11.05
Earnings	1.61	2.01	1.86	1.40	1.42	1.68	1.66	1.52	1.57	1.51
Dividends	1.34	1.34	1.34	1.34	1.30	1.26	1.22	1.18	1.14	1.10
Payout Ratio	83%	67%	72%	96%	92%	75%	73%	78%	73%	73%
Prices - High	35.72	35.00	29.62	31.56	26.25	25.87	25.00	22.06	23.62	19.56
- Low	20.89	20.37	22.06	23.93	19.87	21.12	19.37	17.00	18.43	15.18
P/E Ratio - High	22	17	16	23	18	15	15	15	15	13
- Low	13	10	12	17	14	13	12	11	12	10
Income Statement Analysis (Million $)										
Revs.	10,155	10,066	11,585	11,403	12,611	10,358	9,180	8,297	8,489	8,073
Depr.	1,173	1,171	1,307	1,539	1,246	996	904	821	793	768
Maint.	909	852	945	887	763	782	683	660	653	613
Fxd. Chgs. Cov.	3.3	2.9	2.7	2.6	2.7	3.8	3.3	3.3	4.0	2.9
Constr. Credits	NA	NA	NA	NA	20.0	23.0	25.0	29.0	22.0	22.0
Eff. Tax Rate	33%	37%	33%	39%	43%	40%	39%	39%	35%	37%
Net Inc.	1,119	994	1,276	977	972	1,127	1,103	989	1,002	953
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	38,104	35,972	38,620	37,363	34,044	34,190	33,093	30,694	28,947	27,955
Cap. Exp.	2,617	2,225	2,560	2,005	1,859	1,229	1,401	1,536	1,441	1,105
Net Prop.	23,084	21,622	24,544	24,124	22,110	23,269	23,026	21,117	20,013	16,489
Capitalization:										
LT Debt	10,941	10,457	14,443	13,020	10,274	7,935	8,306	7,593	7,411	7,241
% LT Debt	58	49	61	57	46	43	45	44	45	46
Pfd.	Nil	Nil	Nil	Nil	2,237	1,402	1,432	1,432	1,333	1,359
% Pfd.	Nil	Nil	Nil	Nil	10	7.60	7.70	8.30	8.10	8.60
Common	7,984	10,690	9,296	9,797	9,647	9,216	8,772	8,186	7,684	7,234
% Common	42	51	39	43	44	50	47	48	47	46
Total Cap.	24,147	26,436	29,662	24,790	27,997	24,454	24,877	23,963	22,358	16,791
% Oper. Ratio	81.9	82.0	81.7	82.6	84.6	82.1	79.5	79.3	79.2	78.2
% Earn. on Net Prop.	10.7	11.4	8.5	7.3	8.6	8.0	8.5	8.3	9.7	10.6
% Return On Revs.	11.0	9.9	11.0	8.6	7.7	10.9	12.0	11.9	11.8	11.8
% Return On Invest. Capital	7.4	7.3	9.6	13.8	10.4	7.9	7.9	7.6	9.3	10.5
% Return On Com. Equity	12.0	10.0	13.4	10.0	10.3	12.5	13.0	12.5	13.4	13.4

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128) prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office—270 Peachtree St. N.W., Atlanta, GA 30303. **Tel**—(404) 506-5000. **Website**—http://www.southernco.com **Chrmn Pres & CEO**—H. A. Franklin. **EVP & CFO**—G. E. Klappa. **Secy**—T. Chisholm. **Investor Contact**—Glen Kundert (404-506-5135). **Dirs**—D. P. Amos, D. J. Bern, T. F. Chapman, H. A. Franklin, B. S. Gordon, L. G. Hardman III, D. M. James, Z. T. Pate, G. J. St. Pe. **Transfer Agent & Registrar**—SCS Stockholder Services, Atlanta. **Incorporated**—in Delaware in 1945. **Empl**— 26,122. **S&P Analyst:** Justin McCann,MF

Rate
Rate of interest in money and capital markets
Federal Reserve System
Long-term or capital market
Government securities
Federal
Constant maturity
One-year
Not seasonally adjusted
Twelve months ending December

YIELDS ON TREASURY SECURITIES AT CONSTANT, FIXED MATURITY ARE CONSTRUCTED BY THE TREASURY DEPARTMENT, BASED ON THE MOST ACTIVELY TRADED MARKETABLE TREASURY SECURITIES. YIELDS ON THESE ISSUES ARE BASED ON COMPOSITE QUOTES REPORTED BY U.S. GOVERNMENT SECURITIES DEALERS TO THE FEDERAL RESERVE BANK OF NEW YORK. TO OBTAIN THE CONSTANT MATURITY YIELDS, PERSONNEL AT TREASURY CONSTRUCT A YIELD CURVE EACH BUSINESS DAY AND YIELD VALUES ARE THEN READ FROM THE CURVE AT FIXED MATURITIES.

Released on 12/22/2003

	tcm1y
1962	3.10
1963	3.36
1964	3.85
1965	4.15
1966	5.20
1967	4.88
1968	5.69
1969	7.12
1970	6.90
1971	4.89
1972	4.95
1973	7.32
1974	8.20
1975	6.78
1976	5.88
1977	6.08
1978	8.34
1979	10.65
1980	12.00
1981	14.80
1982	12.27
1983	9.58
1984	10.91
1985	8.42
1986	6.45
1987	6.77
1988	7.65
1989	8.53
1990	7.89
1991	5.86
1992	3.89
1993	3.43
1994	5.32
1995	5.94
1996	5.52

Item 20, page 21

1997	5.63
1998	5.05
1999	5.08
2000	6.11
2001	3.49
2002	2.00

Item 20, page 22

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

21. In reference to the risk adjustment shown on page 54, line 11, explain in detail how the figures for KU and LG&E were derived. Provide all calculations, data, assumptions, etc. in reaching the conclusions indicated.

Answer:

See testimony, beginning on page 25 and continuing through page 42, line 2. The risk analysis was performed to compare KU and LG&E with the companies selected for obtaining data. Also refer to the testimony, page 52 beginning at line 22 and continuing page 54, line 3. The analysis was used to provide a basis for judging the risk differences and the adjustment needed for determining the cost of equity for KU and LG&E.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

22. Provide the attachment deriving the DCF model for various holding periods discussed at the bottom of page 7 of Dr. Weaver's Appendix II.

Answer:

Attached

Ninth Edition

FINANCIAL MANAGEMENT

THEORY AND PRACTICE

EUGENE F. BRIGHAM
University of Florida

LOUIS C. GAPENSKI
University of Florida

MICHAEL C. EHRHARDT
University of Tennessee

The Dryden Press
Harcourt Brace College Publishers

Fort Worth Philadelphia San Diego New York Orlando Austin San Antonio
Toronto Montreal London Sydney Tokyo

Item 22, page 2

SELF-TEST QUESTIONS

Differentiate between a closely held corporation and a publicly owned corp
Differentiate between a listed stock and an unlisted stock.
Differentiate between primary and secondary markets.
What is an IPO?

COMMON STOCK VALUATION

Common stock represents an ownership interest in a corporation, but to the investor, a share of common stock is simply a piece of paper characterized by features:

1. It entitles its owner to dividends, but only if the company has earnings out of w dividends can be paid, and only if management chooses to pay dividends rather retaining and reinvesting all the earnings. Whereas a bond contains a *promise* to interest, common stock provides no such promise—if you own a stock, you *expect* a dividend, but your expectations may not in fact be met. To illustrate, Island Lighting Company (LILCO) had paid dividends on its common stock for than 50 years, and people expected those dividends to continue. However, when company encountered severe problems a few years ago, it stopped paying divide Note, though, that LILCO continued to pay interest on its bonds; if it had not it would have been declared bankrupt, and the bondholders could potentially taken over the company.
2. Stock can be sold at some future date, hopefully at a price greater than the purch price. If the stock is actually sold at a price above its purchase price, the inves will receive a *capital gain*. Generally, at the time people buy common stocks, th do expect to receive capital gains; otherwise, they would not buy the stocks. Ho ever, after the fact, one can end up with capital losses rather than capital gai LILCO's stock price dropped from $17.50 to $3.75 in one year, so the *expected* ca ital gain on that stock turned out to be a huge *actual* capital loss.

Definitions of Terms Used in Stock Valuation Models

Common stocks provide an expected future cash flow stream, and a stock's value found in the same manner as the values of other financial assets—namely, as the pre ent value of the expected future cash flow stream. The expected cash flows consist two elements: (1) the dividends expected in each year and (2) the price investors expe to receive when they sell the stock. The expected final stock price includes the retur of the original investment plus an expected capital gain.

We saw in Chapter 1 that managers seek to maximize the values of their firm stocks. A manager's actions affect both the stream of income to investors and the risk iness of that stream. Therefore, managers need to know how alternative actions a likely to affect stock prices. At this point we develop some models to help show how th value of a share of stock is determined. We begin by defining the following terms:

D_t = dividend the stockholder *expects* to receive at the end of Year t. D_0 is the most recent dividend, which has already been paid; D_1 is the first dividend expected, and it will be paid at the end of this year; D_2 is the dividend expected at the end of two years; and so forth. D_t represents the first cash flow a new purchaser of the stock will receive. Note that D_0, the dividend which has just been paid, is known with certainty. However, all future divi

Item 22, page 3

dends are expected values, so the estimate of D_t may differ among investors.[5]

P_0 = actual **market price** of the stock today.

$\hat{P}_t$ = expected price of the stock at the end of each Year t (pronounced "P hat t"). $\hat{P}_0$ is the **intrinsic**, or *theoretical*, **value** of the stock today as seen by the particular investor doing the analysis; $\hat{P}_1$ is the price expected at the end of one year; and so on. Note that $\hat{P}_0$ is the intrinsic value of the stock today based on a particular investor's estimate of the stock's expected dividend stream and the riskiness of that stream. Hence, whereas the market price P_0 is fixed and is identical for all investors, $\hat{P}_0$ could differ among investors depending on how optimistic they are regarding the company. The caret, or "hat," is used to indicate that $\hat{P}_t$ is an estimated value. $\hat{P}_0$, the individual investor's estimate of the intrinsic value today, could be above or below P_0, the current stock price, but an investor would buy the stock only if his or her estimate of $\hat{P}_0$ were equal to or greater than P_0.

Since there are many investors in the market, there can be many values for $\hat{P}_0$. However, we can think of a group of "average," or "marginal," investors whose actions actually determine the market price. For these marginal investors, P_0 must equal $\hat{P}_0$; otherwise, a disequilibrium would exist, and buying and selling in the market would change P_0 until $P_0 = \hat{P}_0$ for a marginal investor.

g = expected **growth rate** in dividends as predicted by a marginal investor. If dividends are expected to grow at a constant rate, g is also equal to the expected rate of growth in earnings and in the stock's price. Different investors may use different g's to evaluate a firm's stock, but the market price, P_0, is set on the basis of the g estimated by marginal investors.

k_s = minimum acceptable, or **required rate of return,** on the stock, considering both its riskiness and the returns available on other investments. Again, this term generally relates to marginal investors. The determinants of k_s include the real rate of return, expected inflation, and risk premiums, as discussed in Chapter 5.

$\hat{k}_s$ = **expected rate of return** which an investor who buys the stock expects to receive. $\hat{k}_s$ (pronounced "k hat s") could be above or below k_s, but one would buy the stock only if $\hat{k}_s$ were equal to or greater than k_s.

$\bar{k}_s$ = **actual,** or **realized,** *after-the-fact* **rate of return,** pronounced "k bar s." You may *expect* to obtain a return of $\hat{k}_s = 15$ percent if you buy Exxon stock today, but if the market goes down, you may end up next year with an actual realized return that is much lower, perhaps even negative.

D_1/P_0 = expected **dividend yield** on the stock during the coming year. If the stock is expected to pay a dividend of $D_1 = \$1$ during the next 12 months, and if its current price is $P_0 = \$10$, then the expected dividend yield is $\$1/\$10 = 0.10 = 10\%$.

---

[5]Stocks generally pay dividends quarterly, so theoretically we should evaluate them on a quarterly basis. However, in stock valuation, most analysts work on an annual basis because the data generally are not precise enough to warrant refinement to a quarterly model. For additional information on the quarterly model, see Charles M. Linke and J. Kenton Zumwalt, "Estimation Biases in Discounted Cash Flow Analysis of Equity Capital Cost in Rate Regulation," *Financial Management*, Autumn 1984, 15–21.

Item 22, page 4

$\frac{\hat{P}_1 - P_0}{P_0}$ = expected **capital gains yield** on the stock during the coming year. If stock sells for \$10 today, and if it is expected to rise to \$10.50 at the end of one year, then the expected capital gain is $\hat{P}_1 - P_0 = \$10.50 - \$10.00 = \$0.50$, and the expected capital gains yield is $\$0.50/\$10.00 = 0.05 = 5\%$.

Expected total return = $\hat{k}_s$ = expected dividend yield (D_1/P_0) plus expected capital gains yield $[(\hat{P}_1 - P_0)/P_0]$. In our example, the **expected total return** = $\hat{k}_s = 10\% + 5\% = 15\%$.

Expected Dividends as the Basis for Stock Values

In our discussion of bonds in Chapter 8, we found the value of a bond as the present value of interest payments over the life of the bond plus the present value of the bond's maturity (or par) value:

$$V_B = \frac{INT}{(1+k_d)^1} + \frac{INT}{(1+k_d)^2} + \cdots + \frac{INT}{(1+k_d)^N} + \frac{M}{(1+k_d)^N}.$$

Stock prices are likewise determined as the present value of a stream of cash flows, and the basic stock valuation equation is similar to the bond valuation equation. What are the cash flows that corporations provide to their stockholders? First, think of yourself as an investor who buys a stock with the intention of holding it (in your family) forever. In this case, all that you (and your heirs) will receive is a stream of dividends, and the value of the stock today is calculated as the present value of an infinite stream of dividends:

$$\text{Value of stock} = \hat{P}_0 = \text{PV of expected future dividends}$$

$$= \frac{D_1}{(1+k_s)^1} + \frac{D_2}{(1+k_s)^2} + \cdots + \frac{D_\infty}{(1+k_s)^\infty}$$

$$= \sum_{t=1}^{\infty} \frac{D_t}{(1+k_s)^t}. \qquad (9\text{-}1)$$

What about the more typical case, where you expect to hold the stock for a finite period and then sell it—what will be the value of $\hat{P}_0$ in this case? Unless the company is likely to be liquidated and thus to disappear, *the value of the stock is again determined by Equation 9-1.* To see this, recognize that for any individual investor, the expected cash flows consist of expected dividends plus the expected sale price of the stock. However, the sale price the current investor receives will depend on the dividends some future investor expects. Therefore, for all present and future investors in total, expected cash flows must be based on expected future dividends. Put another way, unless a firm is liquidated or sold to another concern, the cash flows it provides to its stockholders will consist only of a stream of dividends. Therefore, the value of a share of its stock must be established as the present value of that expected dividend stream.

The general validity of Equation 9-1 can also be confirmed by asking the following question: Suppose I buy a stock and expect to hold it for one year. I will receive dividends during the year plus the value $\hat{P}_1$ when I sell out at the end of the year. But what will determine the value of $\hat{P}_1$? The answer is that it will be determined as the present value of the dividends expected during Year 2 plus the stock price at the end of that year, which, in turn, will be determined as the present value of another set of future

Item 22, page 5

dividends and an even more distant stock price. This process can be continued ad infinitum, and the ultimate result is Equation 9-1.[6]

Equation 9-1 is a generalized stock valuation model in the sense that the time pattern of D_t can be anything: D_t can be rising, falling, or constant, it can be fluctuating randomly, or it can even be zero for several years, and Equation 9-1 will still hold. Often, however, the projected stream of dividends is expected to follow a systematic pattern, in which case we can develop a simplified (that is, easier to evaluate) version of the stock valuation model expressed in Equation 9-1. In the following sections, we consider the cases of zero growth, constant growth, and nonconstant growth.

Stock Values with Zero Growth

Suppose dividends are not expected to grow at all but to remain constant. Here we have a **zero growth stock,** for which the dividends expected in future years are equal to some constant amount—that is, $D_1 = D_2 = D_3$ and so on. Therefore, we can drop the subscripts on D and rewrite Equation 9-1 as follows:

$$\hat{P}_0 = \frac{D}{(1+k_s)^1} + \frac{D}{(1+k_s)^2} + \cdots + \frac{D}{(1+k_s)^\infty}. \tag{9-1a}$$

As we noted in Chapter 7 in connection with the British consol bond, a security that is expected to pay a constant amount each year forever is called a perpetuity. *Therefore, a zero growth stock is a perpetuity.*

Although a zero growth stock is expected to provide a constant stream of dividends into the indefinite future, each dividend has a smaller present value than the preceding one, and as the years get very large, the present value of the future dividends approaches zero. To illustrate, suppose D = \$1.15 and k_s = 13.4%. We can rewrite Equation 9-1a as follows:

$$\hat{P}_0 = \frac{\$1.15}{(1.134)^1} + \frac{\$1.15}{(1.134)^2} + \frac{\$1.15}{(1.134)^3} + \cdots + \frac{\$1.15}{(1.134)^{50}} + \cdots + \frac{\$1.15}{(1.134)^{100}} + \cdots$$

$$= \$1.01 + \$0.89 + \$0.79 + \cdots + \$0.002 + \cdots + \$0.000004 + \cdots$$

We can also show the zero growth stock in graph form, as in Figure 9-1. The horizontal line shows the constant dividend stream, D_t = \$1.15. The descending step function curve shows the present value of each future dividend. If we extended the analysis on out to infinity and then summed the present values of all the future dividends, the sum would be equal to the value of the stock.

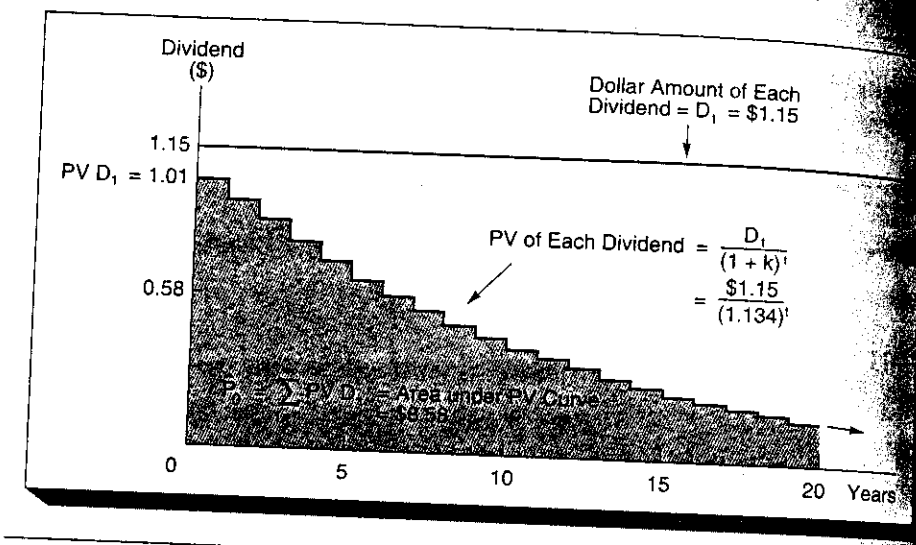
As we saw in Chapter 7, the value of any perpetuity is simply the payment divided by the discount rate, so the value of a zero growth stock reduces to this formula:

$$\hat{P}_0 = \frac{D}{k_s}. \tag{9-2}$$

[6]We should note that investors periodically lose sight of the long-run nature of stocks as investments and forget that in order to sell a stock at a profit, one must find a buyer who will pay the higher price. If you analyzed a stock's value in accordance with Equation 9-1, concluded that the stock's market price exceeded a reasonable value, and then bought the stock anyway, then you would be following the "bigger fool" theory of investment—you think that you may be a fool to buy the stock at its excessive price, but you also think that when you get ready to sell it, you can find someone who is an even bigger fool. The bigger fool theory was widely followed in the summer of 1987, just before the stock market lost more than one-third of its value in the October 1987 crash. Many people think it is back in vogue now, in 1998.

Item 22, page 6

FIGURE 9-1 Present Values of Dividends of a Zero Growth Stock (Perpetuity)



Therefore, the value of our illustrative stock is $8.58:

$$\hat{P}_0 = \frac{\$1.15}{0.134} = \$8.58.$$

If you extended Figure 9-1 on out forever and then added up the present value of each individual dividend, you would end up with the intrinsic value of the stock, $8.58.[7] The actual market price of the stock, P_0, could be greater than, less than, or equal to $8.58, depending on other investors' perceptions of the dividend pattern and riskiness of the stock.

We could transpose the $\hat{P}_0$ and the k_s in Equation 9-2 and solve for k_s to produce Equation 9-3:

$$\hat{k}_s = \frac{D}{P_0}. \tag{9-3}$$

We could then look up the price of the stock and the latest dividend, P_0 and D, in the newspaper, and D/P_0 would be the rate of return we could expect to earn if we bought the stock. Since we are dealing with an *expected rate of return,* we put a "hat" on the k value. Thus, if we bought the stock at a price of $8.58 and expected to receive a constant dividend of $1.15, our expected rate of return would be

$$\hat{k}_s = \frac{\$1.15}{\$8.58} = 0.134 = 13.4\%.$$

[7] If you think that having a stock pay dividends forever is unrealistic, then think of it as lasting only for 50 years. Here you would have an annuity of $1.15 per year for 50 years discounted at 13.4 percent. Enter N = 50, I = 13.4, and PMT = 1.15, and then press PV to find the value of the annuity. It is $8.57, which differs by only a penny from that of the perpetuity. Thus, the dividends from Years 51 to infinity contribute almost nothing to the value of the stock.

Item 22, page 7

Normal, or Constant, Growth

Although the zero growth model is applicable to a few companies, the earnings and dividends of most companies are expected to increase over time. Expected growth rates vary from company to company, but dividend growth on average is expected to continue in the foreseeable future at about the same rate as that of the nominal gross domestic product (real GDP plus inflation). On this basis, one might expect the dividend of an average, or "normal," company to grow at a rate of 6 to 8 percent a year. Thus, if a **normal,** or **constant, growth** company's last dividend, which has already been paid, was D_0, its dividend in any future Year t may be forecasted as $D_t = D_0(1 + g)^t$, where g is the constant expected rate of growth. For example, if MicroDrive just paid a dividend of \$1.15 (that is, $D_0 = \$1.15$), and if investors expect an 8 percent growth rate, then the estimated dividend one year hence would be $D_1 = \$1.15(1.08) = \$1.24$; D_2 would be \$1.34; and the estimated dividend five years hence would be

$$D_t = D_0(1 + g)^t = \$1.15(1.08)^5 = \$1.69.$$

Using this method for estimating future dividends, we can determine the current stock value, $\hat{P}_0$, using Equation 9-1 as set forth previously—in other words, we can find the expected future cash flow stream (the dividends), then calculate the present value of each dividend payment, and finally sum these present values to find the value of the stock. Thus, the intrinsic value of the stock is equal to the present value of its expected future dividends.

If g is constant, Equation 9-1 may be rewritten as follows:[8]

$$\begin{aligned}\hat{P}_0 &= \frac{D_0(1+g)^1}{(1+k_s)^1} + \frac{D_0(1+g)^2}{(1+k_s)^2} + \cdots + \frac{D_0(1+g)^\infty}{(1+k_s)^\infty} \\ &= D_0 \sum_{t=1}^{\infty} \frac{(1+g)^t}{(1+k_s)^t} \\ &= \frac{D_0(1+g)}{k_s - g} = \frac{D_1}{k_s - g}. \end{aligned} \tag{9-4}$$

Inserting values into Equation 9-4, we find the value of our illustrative stock to be \$23.00:

$$\hat{P}_0 = \frac{\$1.15(1.08)}{0.134 - 0.08} = \frac{\$1.242}{0.054} = \$23.00.$$

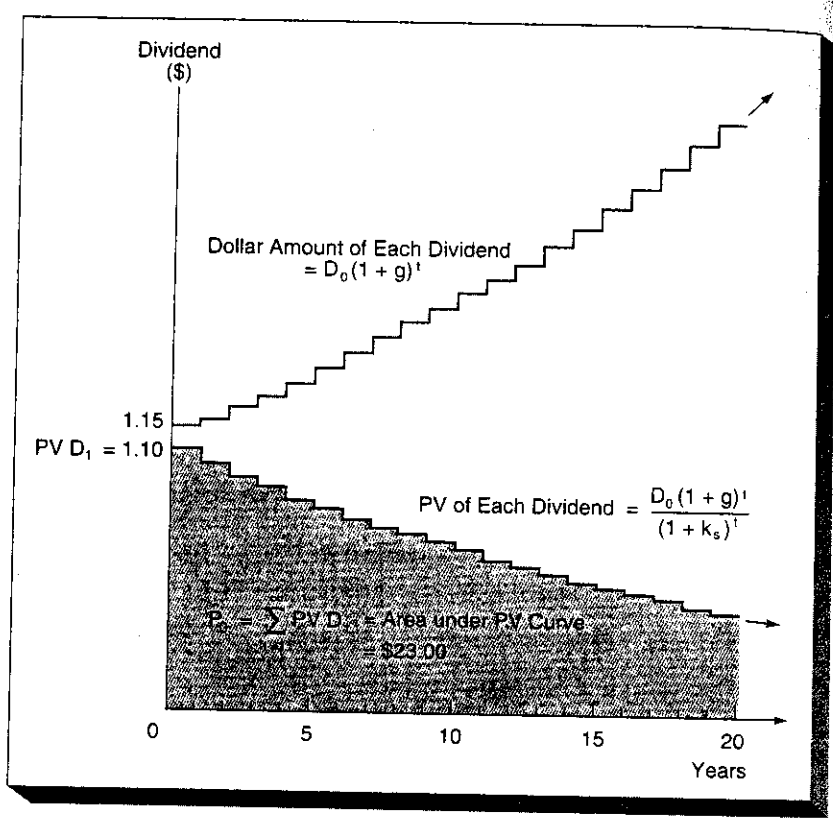
The **constant growth model** as set forth in the last term of Equation 9-4 is often called the Gordon Model, after Myron J. Gordon, who did much to develop and popularize it.

Note that Equation 9-4 is sufficiently general to encompass the zero growth case described earlier: If growth is zero, this is simply a special case of constant growth, and Equation 9-4 is equal to Equation 9-2. Note also that a necessary condition for the derivation of Equation 9-4 is that k_s be greater than g. Look back at the second form of Equation 9-4. If g is larger than k_s, then $(1 + g)^t/(1 + k_s)^t$ must always be greater than one. In this case, Equation 9-4 is the sum of an infinite number of terms, with each term being a number larger than one. Therefore, if the constant g were greater than k_s, the resulting stock price would be infinite! Since no company is worth an infinite price, it is impossible to have a constant growth rate that is greater than k_s. *So, if you try to*

[8]The last form of Equation 9-4 is derived in Appendix 4A of Eugene F. Brigham and Louis C. Gapenski, *Intermediate Financial Management,* 5th ed. (Fort Worth, Tex.: Dryden Press, 1996). In essence, Equation 9-4 is the sum of a geometric progression, and the final result is the solution value of the progression.

Item 22. page 8

FIGURE 9-2 Present Values of Dividends of a Constant Growth Stock: $D_0 = \$1.15$, $g = 8\%$, $k_s = 13.4\%$



use the constant growth model in a situation where g is greater than k_s, you will violate laws of economics and mathematics, and your results will be both wrong and meaningless.

The concept underlying the valuation process for a constant growth stock is graphed in Figure 9-2. Dividends are growing at the rate $g = 8\%$, but because $k_s > g$, the present value of each future dividend is declining. For example, the dividend in Year 1 is $D_1 = D_0(1 + g)^1 = \$1.15(1.08) = \$1.242$. However, the present value of this dividend, discounted at 13.4 percent, is $PV(D_1) = \$1.242/(1.134)^1 = \$1.095$. The dividend expected in Year 2 grows to $\$1.242(1.08) = \$1.341$, but the present value of this dividend falls to $\$1.04$. Continuing, $D_3 = \$1.449$ and $PV(D_3) = \$0.993$, and so on. Thus, the expected dividends are growing, but the present value of each successive dividend is declining, because the dividend growth rate (8%) is less than the rate used for discounting the dividends to the present (13.4%).

If we summed the present values of each future dividend, this summation would be the value of the stock, $\hat{P}_0$. When g is a constant, this summation is equal to $D_1/(k_s - g)$, as shown in Equation 9-4. Therefore, if we extended the lower step function curve in Figure 9-2 on out to infinity and added up the present values of each future dividend, the summation would be identical to the value given by Equation 9-4, $23.00.

Growth in dividends occurs primarily as a result of growth in *earnings per share (EPS)*. Earnings growth, in turn, results from a number of factors, including (1) infla-

Item 22, page 9

tion, (2) the amount of earnings the company retains and reinvests, and (3) the rate of return the company earns on its equity (ROE). Regarding inflation, if output (in units) is stable, but both sales prices and input costs rise at the inflation rate, then EPS will also grow at the inflation rate. Even without inflation, EPS will also grow as a result of the reinvestment, or plowback, of earnings. If the firm's earnings are not all paid out as dividends (that is, if some fraction of earnings is retained), the dollars of investment behind each share will rise over time, and that should lead to growth in earnings and dividends.

Even though a stock's value is derived from expected dividends, this does not necessarily mean that corporations can increase their stock prices by simply raising the current dividend. Shareholders care about *all* dividends, both current and those expected in the future. Moreover, there is a trade-off between current dividends and future dividends. Companies that pay high current dividends have less money to retain and reinvest in the business, and that lowers the rate of growth in earnings and dividends. So, the issue is this: Do shareholders prefer higher current dividends at the cost of a slower rate of growth in dividends, the reverse, or are stockholders indifferent? As we will see in Chapter 17, there is no simple answer to this question. Shareholders prefer to have the company retain earnings, hence pay less current dividends, if it has highly profitable investment opportunities, but they want the company to pay earnings out if its investment opportunities are poor. Taxes also play a role, as dividends and capital gains are taxed differently, so dividend policy affects investors' taxes. We will consider dividend policy in detail in Chapter 17.

Do Stock Prices Reflect Long-Term or Short-Term Events?

Managers often complain that the stock market is shortsighted and that it cares only about next quarter's performance. Let's use the constant growth model to test this assertion. MicroDrive's most recent dividend was $1.15, and it is expected to grow at a rate of 8 percent per year. Since we know the growth rate, we can forecast the dividends for each of the next five years and then find their present values:

$$
\begin{aligned}
PV &= \frac{D_0(1+g)^1}{(1+k_s)^1} + \frac{D_0(1+g)^2}{(1+k_s)^2} + \frac{D_0(1+g)^3}{(1+k_s)^3} + \frac{D_0(1+g)^4}{(1+k_s)^4} + \frac{D_0(1+g)^5}{(1+k_s)^5} \\
&= \frac{\$1.15(1.08)^1}{(1.134)^1} + \frac{\$1.15(1.08)^2}{(1.134)^2} + \frac{\$1.15(1.08)^3}{(1.134)^3} + \frac{\$1.15(1.08)^4}{(1.134)^4} + \frac{\$1.15(1.08)^5}{(1.134)^5} \\
&= \frac{\$1.242}{(1.134)^1} + \frac{\$1.341}{(1.134)^2} + \frac{\$1.449}{(1.134)^3} + \frac{\$1.565}{(1.134)^4} + \frac{\$1.690}{(1.134)^5} \\
&= 1.095 + 1.043 + 0.993 + 0.946 + 0.901 \\
&\approx \$5.00.
\end{aligned}
$$

Recall that MicroDrive's stock price is $23.00. Therefore, only $5.00, or 22 percent, of the $23.00 stock price is attributable to short-term cash flows. This means that MicroDrive's managers will have a bigger impact on the stock price if they work to increase long-term cash flows rather than focus on short-term flows. This situation holds for most companies. Indeed, a number of professors and consulting firms have used actual company data to show that more than 80 percent of a typical company's stock price is due to cash flows expected more than five years in the future.

This brings up an interesting question. If most of a stock's value is due to long-term cash flows, why do managers and analysts focus so much attention on quarterly earnings? Part of the answer lies in the information conveyed by short-term earnings. For example, if actual quarterly earnings are lower than expected, not because of

Item 22. Page 10

fundamental problems but only because a company has increased its R&D ex tures, studies have shown that the stock price probably won't decline and may ac increase. This makes sense, because R&D should increase future cash flows. O other hand, if quarterly earnings are lower than expected because customers don' the company's new products, then this new information will have negative implicat for future values of g, the long-term growth rate. As we show later in this chapter, small changes in g can lead to large changes in stock prices. Therefore, while the qu terly earnings itself might not be terribly important, the information they convey ab future prospects can be terribly important.

Another reason many managers focus on short-term earnings is that some firms managerial bonuses on the basis of current earnings rather than stock prices (wh reflect future earnings). For these managers, the concern with quarterly earnings is due to their effect on stock prices—it's due to current earnings' effect on bonuses.

Expected Rate of Return on a Constant Growth Stock

We can solve Equation 9-4 for k_s, again using the hat to denote that we are dealing an expected rate of return:[10]

$$\begin{array}{ccccc} \text{Expected rate of return} & = & \text{Expected dividend yield} & + & \text{Expected growth rate, or capital gains yield} \\ \hat{k}_s & = & \frac{D_1}{P_0} & + & g. \end{array} \quad (9-$$

Thus, if you buy a stock for a price $P_0 = \$23$, and if you expect the stock to pay a di idend $D_1 = \$1.242$ one year from now and to grow at a constant rate $g = 8\%$ in t future, then your expected rate of return will be 13.4 percent:

$$\hat{k}_s = \frac{\$1.242}{\$23} + 8\% = 5.4\% + 8\% = 13.4\%.$$

In this form, we see that $\hat{k}_s$ is the *expected total return* and that it consists of a *expected dividend yield,* $D_1/P_0 = 5.4\%$, plus an *expected growth rate or capital gai yield,* $g = 8\%$.

Suppose this analysis had been conducted on January 1, 1999, so $P_0 = \$23$ is the Ja uary 1, 1999, stock price, and $D_1 = \$1.242$ is the dividend expected at the end of 199 What is the expected stock price at the end of 1999? We would again apply Equatio 9-4, but this time we would use the year-end dividend, $D_2 = D_1(1 + g) = \$1.242(1.08) = \$1.3414$:

$$\hat{P}_{12/31/99} = \frac{D_{2000}}{k_s - g} = \frac{\$1.3414}{0.134 - 0.08} = \$24.84.$$

Now, notice that \$24.84 is 8 percent greater than P_0, the \$23 price on January 1, 199

$$\$23(1.08) = \$24.84.$$

[9]Many apparent puzzles in finance can be explained either by managerial compensation systems or by pecu liar features of the Tax Code. So, if you can't explain a firm's behavior in terms of economic logic, look to bonuses or taxes as possible explanations.

[10]The k_s value in Equation 9-4 is a *required* rate of return, but when we transform to obtain Equation 9-5, we are finding an *expected* rate of return. The transformation requires that $k_s = \hat{k}_s$, which holds if the stock market is in equilibrium, a condition that will be discussed later in the chapter.

Item 12. page 11

Thus, we would expect to make a capital gain of \$24.84 – \$23.00 = \$1.84 during 1999, which would provide a capital gains yield of 8 percent:

$$\text{Capital gains yield}_{1999} = \frac{\text{Capital gain}}{\text{Beginning price}} = \frac{\$1.84}{\$23.00} = 0.08 = 8\%.$$

We could extend the analysis on out, and in each future year the expected capital gains yield would always equal g, the expected dividend growth rate.

Continuing, the dividend yield in 2000 could be estimated as follows:

$$\text{Dividend yield}_{2000} = \frac{D_{2000}}{\hat{P}_{12/31/99}} = \frac{\$1.3414}{\$24.84} = 0.054 = 5.4\%.$$

The dividend yield for 2001 could also be calculated, and again it would be 5.4 percent. Thus, *for a constant growth stock,* the following conditions must hold:

1. The dividend is expected to grow forever at a constant rate, g.
2. The stock price is expected to grow at that same rate.
3. The expected dividend yield is a constant.
4. The expected capital gains yield is also a constant, and it is equal to g.
5. The expected total return, $\hat{k}_s$, is equal to the expected dividend yield plus the expected growth rate: $\hat{k}_s$ = dividend yield + g.

The term *expected* should be clarified—it means expected in a probabilistic sense, as the statistically expected outcome. Thus, if we say the growth rate is expected to remain constant at 8 percent, we mean that the best prediction for the growth rate in any future year is 8 percent, not that we literally expect the growth rate to be exactly 8 percent in each future year. In this sense, the constant growth assumption is reasonable for many large, mature companies.

Supernormal, or Nonconstant, Growth

Firms typically go through *life cycles.* During the early part of their lives, their growth is much faster than that of the economy as a whole; then they match the economy's growth; and finally their growth is slower than that of the economy.[11] Automobile manufacturers in the 1920s and computer software firms such as Microsoft in the 1990s are examples of firms in the early part of the cycle; these firms are called **supernormal,** or **nonconstant, growth** firms. Figure 9-3 illustrates nonconstant growth and also compares it with normal growth, zero growth, and negative growth.[12]

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[11]The concept of life cycles could be broadened to *product cycle,* which would include both small startup companies and large companies like Procter & Gamble, which periodically introduce new products that give sales and earnings a boost. We should also mention *business cycles,* which alternately depress and boost sales and profits. The growth rate just after a major new product has been introduced, or just after a firm emerges from the depths of a recession, is likely to be much higher than the "expected long-run average growth rate," which is the proper number for a DCF analysis.

[12]A negative growth rate indicates a declining company. A mining company whose profits are falling because of a declining ore body is an example. Someone buying such a company would expect its earnings, and consequently its dividends and stock price, to decline each year, and this would lead to capital losses rather than capital gains. Obviously, a declining company's stock price will be relatively low, and its dividend yield must be high enough to offset the expected capital loss and still produce a competitive total return. Students sometimes argue that they would not be willing to buy a stock whose price was expected to decline. However, if the annual dividends are large enough to *more than offset* the falling stock price, the stock could still provide a good return.

Item 22, page 12

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

23. Explain why Dr. Weaver uses a 2001-2002 average on Schedules 17-28, but uses a 2000-2002 average on Schedules 29-30.

Answer:

Schedules 17 through 28 are for cash flow risk assessment. Cash flow statements are constructed by taking the difference in asset and liability accounts from one year to the next. Three years of data are needed to prepare two years of cash flows. Schedules 29 and 30 are comparing three years of individual accounts from the income statement and balance sheet.

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24. In reference to Schedules 39 and 40:
a. Explain how the convergence from current growth to growth in 2007 is derived and provide all assumptions and calculations used.
b. If different convergence assumptions are used for different companies, explain why this is so.
c. Explain how the 2002-2003 growth rate is calculated and provide all assumptions and data underlying the calculation.

Answer:

a. See testimony, page 49, lines 4-8.

b. The same assumption was used for each company.

c. As explained in the footnote to Schedules 39 and 40, "the 2003 growth rate is the dividend growth rate achieved from 2002-2003 from Value Line." For example, the 2003 dividend for Cinergy was $1.84 and the 2002 dividend was $1.80. The calculation is: ($1.84/$1.80-1) * 100=2.22%. The only assumption is that the Value Line data is correct. The data used is:

Company	2003 Dividend	2002 Dividend
Cinergy	1.84	1.80
DTE	2.06	2.06
FPL	2.40	2.32
MGE	1.35	1.34
Southern	1.39	1.36
Constellation	0.96	1.04
Empire	1.28	1.28
PNM	0.86	0.91
Progress	2.18	2.26

There is an error in the 2003 growth rate for Southern. It should be 2.20%. Attached is a revised Schedule 39 with the corrected growth, dividends, perpetuity value, and IRR.

Exhibit _____
Carl G. K. Weaver
Revised Schedule 39

Kentucky Utilities
Multi-stage DCF Model

Company Name:	Year	Cinergy Corp. Growth	Cinergy Corp. Div.	DTE Energy Growth	DTE Energy Div.	FPL Group Growth	FPL Group Div.	MGE Energy Growth	MGE Energy Div.	Southern Company Growth	Southern Company Div.
Current Dividend:			1.84		2.08		2.40		1.36		1.39
11/03/03 Stock Price			-36.43		-35.85		-64.16		-31.87		-29.72
Projected Dividends:	2003	2.22%	1.88	0.00%	2.08	3.45%	2.48	0.75%	1.37	2.21%	1.42
	2004	2.61%	1.93	1.32%	2.11	3.81%	2.58	2.06%	1.40	2.96%	1.46
	2005	3.00%	1.99	2.65%	2.16	4.18%	2.69	3.37%	1.45	3.72%	1.52
	2006	3.38%	2.05	3.97%	2.25	4.54%	2.81	4.68%	1.51	4.47%	1.58
	2007	**3.78%**	2.13	**5.29%**	2.37	**4.91%**	2.94	**6.00%**	1.60	**5.23%**	1.67
	2008	3.78%	2.21	5.29%	2.49	4.91%	3.09	6.00%	1.70	5.23%	1.76
	2009	3.78%	2.30	5.29%	2.63	4.91%	3.24	6.00%	1.80	5.23%	1.85
	2010	3.78%	2.38	5.29%	2.76	4.91%	3.40	6.00%	1.91	5.23%	1.94
	2011	3.78%	2.47	5.29%	2.91	4.91%	3.57	6.00%	2.03	5.23%	2.05
	2012	3.78%	2.57	5.29%	3.06	4.91%	3.74	6.00%	2.15	5.23%	2.15
	2013	3.78%	2.66	5.29%	3.23	4.91%	3.93	6.00%	2.28	5.23%	2.26
	2014	3.78%	2.77	5.29%	3.40	4.91%	4.12	6.00%	2.41	5.23%	2.38
	2015	3.78%	2.87	5.29%	3.58	4.91%	4.32	6.00%	2.56	5.23%	2.51
	2016	3.78%	2.98	5.29%	3.77	4.91%	4.53	6.00%	2.71	5.23%	2.64
	2017	3.78%	3.09	5.29%	3.97	4.91%	4.76	6.00%	2.87	5.23%	2.78
PV of dividend perpetuity in 2018:			64.79		80.91		137.08		80.13		66.86
Internal Rate of Return:			8.5%		10.4%		8.5%		9.8%		9.6%
Average Internal Rate of Return:											**9.37%**

Notes: The Current Dividend is the latest quarterly dividend times 4 from Schedule 34.

The 2003 rate of growth is the dividend growth rate achieved from 2002-2003 from Value Line.

The 2003 rate of growth converges on the 3-5 year growth forcast (the average of the Zacks, Multex, Thomson, and Value Line EPS for each company) in the year 2007 which is 4 years beyond the forecast date.

The formula for determining the PV of perpetual dividends equals [$D_{(Year)}(1+g)/(k-g)$] where k is the iteratively determined IRR and g is the growth rate.

Item 24, page 2

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

25. Explain what changes in risk have occurred for KU to lead Dr. Weaver to recommend a 50-100 basis point lower cost of equity for KU compared with LG&E when the Commission less than three years ago, determined that both Companies had the same required return.

Answer:

I disagree with the Commission decision that was made three years ago. KU had more equity it its capital structure and this fact alone would cause it to have a lower cost of equity.

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And Case No. 2003-00335
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Initial Requests for Information

26. Throughout his testimony Dr. Weaver utilizes the equity ratio of 59.6% for KU. Please provide the calculation of the equity ratio using the current methodology of adjusting the capitalization for Environmental Surcharge costs as approved in Case Number 2003-068.

Answer:

The 59.6% equity ratio for KU was taken from page V-10 of the BWG Report, the capital structure dated May 22, 2003. I did not calculate a different capital structure.

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Carl G. K. Weaver to
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And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

27. Why didn't Dr. Weaver utilize the current methodology for adjusting the capitalization for Environmental Surcharge costs for KU?

Answer:

I was planning to prepare a different capital structure with different capital cost rates. However, I did not receive the response to the Attorney General's first data request, questions 9, 10, 11, and 12, until the evening of November 24. The testimony was due to be filed with the Commission on December 1, a Monday. Therefore, I needed to have it available for the Attorney General's Office by Friday morning the 28th. It had to be e-mailed on the evening of the 27th. That allowed three days, the 25th, 26th, and 27th , to incorporate the information from the responses from the Company. This time frame did not allow me to include any capital structure analysis in the testimony.

Responses of the Attorney General's Witness
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Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

28. Throughout his testimony Dr. Weaver utilized the equity ratio of 50.26% for LG&E. Please provide the calculation of the equity ratio using the current methodology of adjusting the capitalization for environmental Surcharge costs as approved in Case Number 2003-236.

Answer:

See response to question 26 and question 27.

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And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

29. Why didn't Dr. Weaver utilize the current methodology for adjusting the capitalization for Environmental Surcharge costs for LG&E?

Answer:

See the response to question 26 and question 27.

Responses of the Attorney General's Witness
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Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

30. On lines 11-12 of page 27 Dr. Weaver states that using cash flows including changes in working capital provides better information for the analysis. Explain why the proceeds from the sale of accounts receivable associated with the accounts receivable securitization program of KU and LG&E should be included in cash flow for operations rather than cash flows from financing if the balances outstanding under the accounts receivable securitization program are considered as debt in determining the capital structure of the companies for purposes fo the ESM.

Answer:

The accounts receivable securitization program, as I understand the program, uses accounts receivable as security or collateral for debt financing. The accounts receivable balance as of the end of the year remains on the balance sheet in current assets. When accounts receivable on the balance sheet increase, funds are tied up because a sale has been made, the cost of the sale has been incurred, and the collection from the sale has not occurred. A decrease in accounts receivable is a source of funds. The accounts receivable themselves are similar to fixed assets that are used to secure 1st mortgage bonds. The change in fixed assets are included in Cash Flow from Investment Activities and if a 1st mortgage bond was issued to obtain funds for financing, the debt financing is included in Cash Flow from Financing Activities.

Responses of the Attorney General's Witness
Carl G. K. Weaver to
Commonwealth of Kentucky PSC Case No. 2003-00334
And Case No. 2003-00335
Louisville Gas and Electric Company's and Kentucky Utilities Company's
Initial Requests for Information

31. What adjustments, if any did Dr. Weaver make to the capital structure of LG&E and KU to incorporate long-term purchased power obligations that are considered to be debt equivaltnts by the rating agencies?

Answer:

See response to questions 26 and 27.